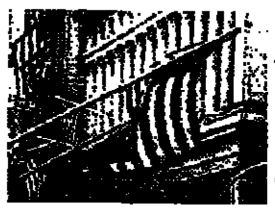
Mexican waves
Peasants' revolt prompts a shake-up
Page 13

Chasing the criminal
Gendarmerie takes a high-tech route
Page 10



US takeover market
Bouncing back – with a difference
Page 15

Alpine pollution
Why the Swiss want a ban on lorries
Page 2

FINANCIAL TIMES

Europe's Business Newspaper — THURSDAY FEBRUARY 17 1994 — D8523A

West wary over UN plea for extra troops in Bosnia

Western European governments shied away from a United Nations request to send more troops to the Bosnian capital Sarajevo, while Russia hardened its stance against any Nato air strikes on positions held by Bosnian Serb forces.

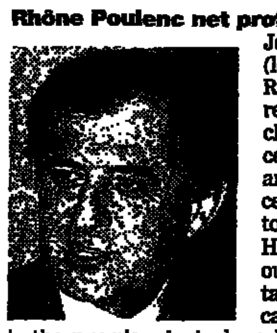
General Sir Michael Rose, the British UN commander based in Sarajevo, wants an immediate additional 3,000 troops to help monitor the collection of weapons held by Bosnian Serb and Bosnian government forces, supervise their storage, and demilitarise the city. Page 14

Warning on German debt: The indebtedness of the entire German public sector is likely to reach almost DM2,000bn ($1,136bn), or roughly 60 per cent of gross domestic product, by the end of the current year, from 56 per cent the year before, the Bundesbank warned. Page 14

Swiss Bank Corporation launched the big Swiss bank results season with a 36 per cent rise in 1993 consolidated net income to SFr1.37bn ($944m) – well ahead of forecasts – and a proposed 14.3 per cent rise in dividends. Page 15

Greece acts to isolate Macedonia: Greece said it was freezing diplomatic ties with Macedonia and would not permit the landlocked former Yugoslav republic to import fuel and other goods through the Greek port of Thessaloniki. Page 14

Rhône Poulenc net profits fall 36%



Jean René Fourtou (left), chairman of Rhône Poulenc, France's recently privatised chemicals and pharmaceuticals group, announced a 36 per cent fall in net profits to FFr962m ($163m). He said the economic outlook remained uncertain and expressed caution about recovery in the group's principal markets this year, saying he did not expect a substantial increase in profits until 1996. Page 15; Lex, Page 14

Strikes hit Russia: A series of strikes and strike threats is now rippling across Russia, evidence of a growing militancy in face of non-payment of wages, reductions in workforces and plunging morale as workers face increasingly uncertain futures. Page 2

Meeting over Rover takeover: Teams from BMW and Rover Group are understood to be flying to Tokyo this weekend for talks with Rover's longstanding partner, Honda, over the German carmaker's intended acquisition of the UK group. Page 15; Lex, Page 14; BMW profits, Page 15

PLO and Jordan in border deal: Jordan and the Palestine Liberation Organisation agreed an open border policy and wrapped up other details of economic co-operation in a new spirit of co-ordination following months of animosity over progress in the Middle East peace talks. Page 4

Icy grip on US economy: Exceptionally cold weather could cause economic growth in the first quarter to fall short of administration projections, commerce secretary Ron Brown said. He was reacting to the worst figures for housing starts in a decade. Page 3

Nuclear call to N Korea: North Korea's agreement to allow international inspections of seven nuclear plants was greeted with qualified relief by South Korea and Japan. Both said more needed to be done to resolve suspicions over North Korea's nuclear programme. Page 4

Queen to visit Russia: The Queen of England will this year become the first reigning British monarch to visit Russia since the 1917 revolution, in a move aimed at setting the seal on closer relations between London and Moscow. The autumn is the likely time.

Westland, UK helicopter manufacturer, warned that moves to restructure the company and forge overseas alliances could be undermined if UK engineering group GKN succeeded with its hostile bid. Page 15

Hollinger, publishing group controlled by Conrad Black, expects to raise between C$30m and C$40m (US$22.2m-29.6m) by offering minority stakes to the public in its US and Canadian newspaper chains. Page 18

Quake kills more than 120: At least 127 people were killed and nearly 1,000 injured when an earthquake measuring at least 6.5 on the Richter scale struck a mountainous region of Indonesia's Sumatra island.

■ STOCK MARKET INDICES

FT-SE 100:	3,417.7	(+24.5)
Yield	3.29	
FT-SE Eurotrack 100	1,491.80	(+8.56)
FT-SE-A All-Share	1,717.78	(+0.7%)
Nikkei	19,852.11	(+77.51)
New York: lunchtime		
Dow Jones Ind Ave	3,933.05	(+4.78)
S&P Composite	472.42	(-0.10)

■ US LUNCHTIME RATES

Federal Funds:	$3\frac{1}{8}$%
3-mo Treas Bills: Yld	3.33%
Long Bond	$97\frac{1}{8}$
Yield	6.445%

■ LONDON MONEY

3-mo Interbank	$5\frac{3}{16}$%	($5\frac{3}{16}$%)
Liffe long gilt future:	Mar $116\frac{21}{32}$	(Mar $115\frac{7}{8}$)

■ NORTH SEA OIL (Argus)

Brent 15-day (Apr)	$13.31	($13.255)

■ Gold

New York Comex (Apr)	$385.3	($385.5)
London	$383.5	($384.5)

■ STERLING

New York lunchtime:		
$	1.47825	
London:		
$	1.4793	(1.4757)
DM	2.5471	(2.5463)
FFr	8.6786	(8.6732)
SFr	2.1471	(2.1397)
Y	153.176	(152.14)
£ Index	80.6	(80.4)

■ DOLLAR

New York lunchtime:		
DM	1.72415	
FFr	5.8695	
SFr	1.45365	
Y	103.785	
London:		
DM	1.7219	(1.7255)
FFr	5.8655	(5.8775)
SFr	1.4515	(1.45)
Y	103.55	(103.1)
$ Index	66.3	(same)

Tokyo close Y 103.65

Austria	Sch32	Greece	Dr350	Lux	LFr65	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Malta	Lm0.60	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30
Bulgaria	Lv25.00	Iceland	IKr215	Neth	Fl 4.00	Slovak Rp	KSL50
Cyprus	C£1.10	India	Rs60	Nigeria	Naira50	South Africa	R12.00
Czech Rp	CZK50	Israel	Shk8.90	Norway	NKr17.00	Spain	Pta225
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr18
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30
Finland	FM14	Jordan	JD1.50	Philippines	Pso50	Syria	S£50.00
France	FFr9.00	Kuwait	Fils.625	Poland	Zl 32,000	Tunisia	Din1.500
Germany	DM3.50	Lebanon	US$1.50	Portugal	Es225	Turkey	L13000
						UAE	Dh12.00

Mandela moves to accommodate S Africa right wing

By Patti Waldmeir in Cape Town

Mr Nelson Mandela, leader of the African National Congress, announced constitutional concessions yesterday aimed at averting a rightwing boycott of South Africa's all-race elections and reducing the threat of violence.

"We must treat the threat of civil war seriously," Mr Mandela said after an emergency meeting of the ANC's policymaking national executive committee. "That is why we have gone out of our way to make these concessions."

He announced concessions to strengthen the powers of provinces under the country's post-apartheid constitution but falling some way short of the demands of the Zulu-based Inkatha Freedom party for provincial autonomy.

Chief Mangosuthu Buthelezi, Inkatha leader, speaking at a conference in Cape Town before the ANC announcement, outlined a significantly tougher stance. He said he believed that Zulu King Goodwill Zwelithini's recent demand for an independent Zulu homeland, which Mr Mandela said was out of the question, was probably "irreversible".

Mr Mandela proposed constitutional changes aimed at accommodating the fears not only of Inkatha, but of the white rightwing Afrikaner Volksfront, which demands a homeland for Afrikaners. Changes include unspecified powers of taxation for provincial governments, a constitutional principle safeguarding the right to "self-determination" – a key demand of the white right – as well as measures to ensure that the powers of provinces are not "substantially diminished" when the elected assembly writes a new constitution to replace the 1993 interim constitution.

Those concessions would probably not affect the basic nature of the present constitution, which provides for strong central government rather than the federal system demanded by Chief Buthelezi. But they would go some way to meeting the concerns of Chief Buthelezi, and demonstrate a willingness by the ANC to consider compromise.

On provincial powers, Mr Mandela said: "The matter is on the agenda and we are prepared to hammer out a solution which is agreeable to all parties."

Mr Mandela also said the ANC approved amending the new constitution to clear the way for consideration of an Afrikaner homeland after the election. He did not give details. The ANC also dropped its demand for a single-ballot system in the April 26-28 election, and called for multi-party negotiations to be reconvened on Monday to approve the decision. The change would favour the regional parties such as Inkatha.

President F.W. de Klerk said parliament would be recalled in March to incorporate the proposed amendments in the constitution.

EU fines big steelmakers and warns of more cuts

By David Gardner in Brussels and Andrew Baxter and Kevin Brown in London

The European Commission yesterday imposed a record fine of Ecu104.4m ($117m) on 16 of Europe's leading steelmakers for operating a cartel to supply the construction industry.

The fines were accompanied by a stiff warning that the Commission would take a tough line against market-rigging in any industry.

Brussels also issued an ultimatum to private steelmakers over plans for capacity cuts agreed by EU industry ministers last December. The Commission said the Ecu240m fund to ease the redundancies created by the restructuring would be withdrawn, unless the steel companies came up with the agreed capacity cuts by April .

The 16 companies were found guilty of infringing all the provisions of Article 65 of the European Coal and Steel Treaty, which outlaws price-fixing, market-sharing and exchanging confidential information.

"This was a case when everything that can be infringed has been infringed," said Mr Karel Van Miert, EU competition commissioner, justifying the unprecedented severity of the fines. "We needed to be tough," he said, adding that "there should no longer be any doubt that the rules of competition are applicable in this Community."

Mr Van Miert said the Commission had levied the heaviest fines on "those who have sinned repeatedly". The ringleaders in the cartel to rig prices for beams and girders, according to the Commission, were British Steel,

■ EU steelmakers to appeal against fines Page 2
■ Editorial Comment Page 13
■ Lex Page 14

fined Ecu32m; Unimetal, a division of France's Usinor-Sacilor, fined Ecu12.3m; and Thyssen of Germany, fined Ecu6.5m.

The Commission's decision was bitterly criticised during angry exchanges in the British House of Commons. MPs of all parties said the judgment was unfair to British Steel.

Mr Tim Sainsbury, the industry minister, rejected claims that the fines were linked to the Commission's plans to reduce capacity throughout Europe. But there were cheers on all sides as Mr Phillip Oppenheim, a Conservative backbencher, accused the Commission of rigging the steel market and creating "a mess of overcapacity."

German steelmakers and British Steel said they would appeal against the Commission's judgment to the European Court of Justice. Mr Ruprecht Vondran, president of the German steel federation, said: "German steel companies will not accept this decision silently."

The powerful Brussels competition authorities found that between 1984 and 1990, the 16 companies operated what Mr Van Miert called "a very well organised and centrally steered" cartel through Eurofer, the pan-European steel industry group.

Politically, the Commission's exposure of the cartel's anti-competitive practices –including the

Continued on Page 14

Washington takes aggressive stance on official lobbying for deal

US groups win $6bn Saudi airliner contract

By George Graham in Washington and Paul Betts in London

The US has won a $6bn deal to modernise Saudi Arabia's airline fleet with Boeing and McDonnell Douglas aircraft, dealing a heavy blow to their European rival, Airbus Industrie.

The order for about 50 airliners, announced by President Bill Clinton yesterday with an unusual White House fanfare, follows a year of intense lobbying by many in the US cabinet. Mr Clinton said the work would create 60,000 jobs in the US.

The White House's direct involvement in clinching the order is expected to heighten trade tension between the US and Europe over the overt use of political pressure to win commercial aircraft sales.

Saudi Arabia's decision to choose US manufacturers over Airbus to supply Saudia, its national airline, is a particularly significant setback for the Airbus consortium, which had hoped to win much of the order.

Big commercial aircraft orders are still rare because of the financial difficulties faced by many airlines.

The negotiations have involved an unprecedented degree of US government export promotion, cemented by visits to Riyadh by three US cabinet secretaries and by Mr Clinton's own telephone lobbying of King Fahd. It has been matched by similar high-level lobbying by the four European Airbus partner countries.

Mr Clinton said in the televised announcement that the US administration would continue to be "aggressively involved in this kind of [sales] endeavour when it is appropriate".

European aerospace industry officials last night said the Saudia deal was "an important lesson" for Europe because it underlined the US government's increasing commitment to put its full political weight behind big export deals.

"It certainly slams shut the door on the US contention that Europeans have been putting on political pressure to win Airbus export sales," a French official noted.

Confirming the US government's new, aggressive export stance, Mr Ron Brown, commerce secretary, said: "We have finally broken out of the shackles that have caused a several-decade debate about the role of government. Our international competitors figured out that role a long time ago, and that's why they are doing much better than they should be doing in international competition."

The US Export-Import Bank has also arranged for its largest ever preliminary commitments to provide loan guarantees to assure Boeing and McDonnell Douglas of the financing they needed.

However, Airbus, whose partners include British Aerospace (20 per cent), Aérospatiale of France (37.9 per cent), Deutsche Aerospace (37.9 per cent) and Casa of Spain (4.2 per cent), yesterday said it had still not heard from Saudia whether its competing offer had been rejected.

"We have as today no indication from Saudia as to whether they accept or reject our offer of planes, whose validity has been extended to March 1 at their request", Airbus said.

Boeing and McDonnell Douglas said details of the contract, including which precise aircraft would be supplied, had not been worked out. Prince Bandar bin Sultan, the Saudi ambassador to Washington, said representatives of the two US aircraft manufacturers would be invited to Riyadh to start negotiations after the end of Ramadan, around March 20.

McDonnell Douglas has been offering its MD-11 long-range jet while Boeing has been discussing 747s, its new 777 twin-engine widebody and the smaller 737.

Airbus has offered its A340 long-range aircraft and its smaller A320.

Saudi Arabia's budget has been constrained by falling oil prices, and $9bn owed arms deals has recently been restructured.

Associated Press

Prince Bandar bin Sultan, the Saudi ambassador to Washington (left), and Bill Clinton admire a model Boeing 747 at the White House announcement of the $6bn aircraft deal

Renault and Volvo move to unwind cross-shareholdings

By John Ridding in Paris and Hugh Carnegy in Stockholm

France's Renault and Volvo of Sweden are moving to dismantle their cross-shareholdings in the wake of the collapse last year of plans to merge their car activities.

French officials said it was necessary for state-owned Renault to "regain its freedom of action," although they declined to confirm reports that the cross-shareholdings will be unwound as part of the privatisation of Renault, scheduled for the second half of this year.

Volvo is also understood to be anxious to dismantle the cross-shareholdings, established when the two groups forged an alliance in 1990. The Swedish group wants freedom to seek the long-term co-operation with other motor industry manufacturers it needs to help it bear the high costs of developing a new model range.

Under the terms of the 1990 alliance, Renault retains 25 per cent of Volvo's car activities and 45 per cent of the Swedish group's truck operations. Volvo holds 20 per cent of Renault group and 45 per cent of RVI, the company's truck and buses operation. The agreement prevents both groups from forming alliances with other vehicle groups and was designed as a precursor to a full merger.

Negotiations on unwinding the alliance have accelerated since a new board took office at Volvo last month following the resignation in December of Mr Pehr Gyllenhammar, former chairman and architect of the Renault deal. Renault and Volvo have already dismantled several industrial projects and ended joint purchasing and design operations. Earlier this month, Renault sold more than half of its 8.3 per cent stake in AB Volvo, the Swedish group's parent company

Mr Gérard Longuet, the French industry minister, said yesterday that the process of separation was progressing smoothly. Speaking in an interview on RTL radio, Mr Longuet compared the separation to a divorce between "two well brought up people".

Volvo is likely to reduce its shares in Renault at the time of privatisation of the French group, and may further cut its stake following the sale. Renault would gradually reduce its shares in AB Volvo on the stock market.

But both the French and Swedish sides said a divorce had not been worked out and it was not clear how long the process would take. Volvo is anxious to achieve full value for its Renault investment and is concerned not to rush an agreement.

Lex, Page 14

CONTENTS

LONDON · PARIS · FRANKFURT · NEW YORK · TOKYO

Miners lead strike wave in Russia

By John Lloyd in Moscow

A series of strikes and strike threats are now rippling across Russia, evidence of a growing militancy in face of non-payment of wages, reductions in workforces and plunging morale as workers in different industries face increasingly uncertain futures.

The coalminers, traditionally the most militant group in Russia as elsewhere, have staged stoppages in the Arctic region of Vorkuta and in the larger Kuzbass coal basin. However, a wider strike expected to be called on Tuesday has been delayed, as divisions emerged on the council of the Independent Miners' Union about how far political demands should be advanced.

Mr Yuri Shafranik, the Russian energy minister, promised the Kuzbass men on Tuesday to pay Rbs1,500bn in back wages in order to avert action in the basin.

More seriously for the government, oil workers in the city of Nizhnevartovsk, the centre of the Tyumen oil-producing region, have voted for a strike which will be called by a strike committee "if the situation requires". The oil workers claim they have not been paid their salaries, of around Rbs500,000 a month, for three months.

Thousands of teachers at institutes of higher education struck yesterday, also protesting against non-payment of wages and citing rapidly worsening conditions in the colleges. They demanded payment in full of all wages and that the government fulfil its promises to index the low pay rates to inflation.

In Moscow, the city's ambulance service workers, who include doctors in their ranks, have decided to strike from March 1 – but in a "special form" which will include not carrying corpses (except those of children) and not filling in forms, but will not include refusing to take emergencies and the aged to hospital.

An earlier call for a full strike, made by the work force council of the ambulance agency, was overturned by a meeting of the service's workers yesterday. Mr Anatoly Solovyov,head of the service, said that many, especially the elderly, "would experience a moral, if not physical, trauma if they hear of an all-out strike".

Strikes have been rare in spite of – or because of – the steadily worsening living standards and the now habitual inability of enterprises to pay their workers. However, the example of the miners, who have usually won promises (if not always the actuality) of extra payments whenever they have threatened strike, the practise seems to be spreading.

Belarussians look to rouble tie to save them

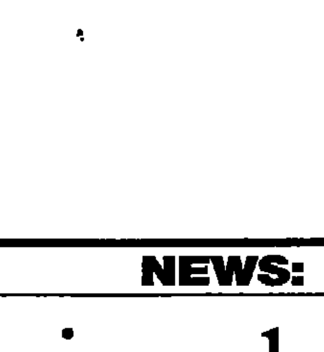
Leyla Boulton on a plan which critics say would amount to Russia subsidising an unreconstructed neighbour

"Socialism lives on here. Who in the west would feed us like Russia does?" asked Mr Stanislav Bogdankevich, governor of the central bank of Belarus, the former Soviet republic that is hoping to consummate a rouble marriage with its giant neighbour as soon as possible.

But as he watched demonstrators march past his window in protest against a currency union plan which has also been attacked by Russian reformers, he admitted that too many people in Belarus, including its neo-communist government, were under the illusion "that this monetary union will save them".

Final agreement is awaiting a decision by Mr Victor Chernomyrdin, the Russian prime minister, on Belarus demands for the deal to include subsidised energy and a favourable exchange rate for replacing its surrogate currency, the *hare*, with the Russian rouble.

Mr Chernomyrdin and Mr Victor Gerashchenko, the Russian central bank chairman who would take over many of Mr Bogdankevich's responsibilities if the deal goes through, claim it will help Russian companies by restoring old Soviet-era trading links.



Along with making Belarus follow Russian monetary, fiscal, and trade policy, the proposed treaty would abolish all customs barriers between the two countries. Politically, it would make Belarus, traditionally the least independent-minded republic in the former Soviet Union, abandon much of its sovereignty to its neighbour.

Mr Vyacheslav Kebich, the Belarus prime minister who has failed to introduce any significant market reforms and now wants to restore Soviet-era price controls to deal with inflation that is twice as high as in Russia, claimed the deal represented the republic's "only chance of survival".

But critics of the agreement in Russia, such as Mr Boris Fyodorov, the former finance minister who believes the parliament will block it, say Russia cannot afford to take on the subsidisation of an unreconstructed neighbour. Even the Belarus side, claiming they spend more money maintaining Russian troops on Belarus soil, have valued the Russian energy subsidies it wants at $1.4bn a year.

Mr Vladimir Karyagin, who heads a Belarus entrepreneurs' union, fears that in finalising the deal, the two governments will focus on helping large state-owned factories at the expense of his country's fledgling private business sector.

Mr Bogdankevich, whose pleas for bolder reform have so far fallen on deaf ears in the government, said that monetary union, if accompanied by subsidised energy for Belarus companies, would offer "sensible new rulers" a golden opportunity to restructure and privatise the economy.

"But you cannot conduct reforms if the government is not up to them," he said, doubting the opportunity would be taken up, at least not before fresh elections, which are being demanded by the opposition.

Although a meek response to a general strike call, the demonstration by a few thousand protestors last Tuesday illustrated the discontent simmering among the republic's 10m inhabitants. Saying that many workers had been frightened away from the protest by the government and their managers, the demonstrators complained about ferocious inflation, low pay and ailing factories. They demanded early elections for both parliament and a new post of president to sweep out a leadership dominated by old-style party bureaucrats.

"Our government is trying to save itself by joining the rouble zone, which we do not need," said Mikhail, a worker at an electronics plant. "But we would join a dollar zone any day."

Having kept this industrialised republics' state-owned enterprises going with inflationary cheap credits, the government last year boasted that industrial production had fallen only 10 per cent in 1993. But the results of its refusal to reform are now catching up with it. Industrial enterprises which have continued to function without being forced to become more efficient are experiencing a fall in production much greater than in Russia.

Industrial output fell by 39 per cent in January alone compared with January 1992, and inflation for January was about 40 per cent, double the Russian rate. Factories are grinding to a halt and workers fear they will be laid off even without restructuring.

With only 3 per cent of state-owned industry and agriculture in private hands, and a discount rate the same as Russia's despite inflation being twice as high, Mr Bogdankevich's hopes that a union could push Belarus into starting reforms seem at least optimistic.

Moscow devolves power to Tatarstan republic

By John Lloyd in Moscow

Moscow has ceded extensive financial and other powers to Tatarstan, one of its richest and most independent-minded republics, hailing the move as a model for others in the Russian federation to follow.

Details of the deal, signed on Tuesday by President Yeltsin and President Mintimer Shamiyev of Tatarstan, will emerge tomorrow when the treaty is debated in the Duma. However, it appears that Moscow has allowed Tatarstan to retain its own constitution, unamended – a constitution in which Russia is mentioned only three times, once as a "neighbouring state", and where full sovereignty including the right to veto Russian legislation is vested in Tatarstan.

Mr Sergei Shakhrai, the minister responsible for the regions, admitted yesterday that the Tatar constitution would stay and that it would be "a long time" before the Tatar parliament amended it to be consonant with the Russian constitution. However, he said that Tatarstan's demand to decide what share of taxes it sends to Moscow had been turned down though the federal government would take a relatively small share of locally-raised taxes.

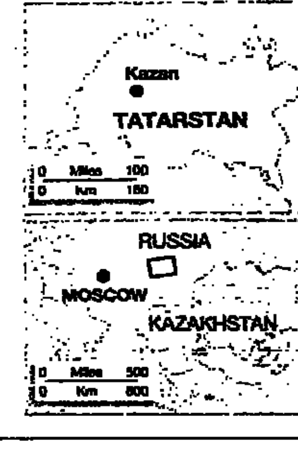
According to newspaper reports, Mr Shamiyev admitted that the resignation of Mr Boris Fyodorov, the former deputy premier in charge of finance, had made agreement possible – presumably because he had objected to the financial arrangements in the treaty.

Mr Yeltsin, commenting that the agreement had been "hard-won", nevertheless said it was "a completely new kind of act".

Mr Shakhrai said the model could be used for other "problem" regions and republics within Russia – such as Chechnya, where General Dzhokar Dudayev, the president, has declared independence; and in the Kaliningrad region in Russia's extreme north-west, where the local authorities have declared a customs-free zone.

The deal is also being seen as a model beyond the Russian Federation. Mr Valerian Advadze, the Georgian ambassador in Moscow, said yesterday that the treaty could become a model for his country in attempting to strike an agreement with the breakaway region of Abkhazia, where fierce fighting raged until Georgian troops were expelled last September.

The agreement has saved Russia from the embarrassment of having an important republic with 5m people nearly half of them ethnic Russians, effectively outside the federation. However, the concessions made may in future threaten the integrity of Russia – if other regions and republics demand the same terms.



EU steelmakers to appeal against Commission fines

By Andrew Baxter and Ariane Genillard

European steelmakers reacted angrily last night to fines of Ecu104.4m (£78.9m) imposed on 16 companies by the European Commission for allegedly operating a cartel in steel beams used in the construction industry.

Mr Brian Moffat, chairman and chief executive of British Steel, said the company would be appealing against the decision, probably to the European Court of Justice. British Steel, seen by the Commission as one of the ringleaders, faces the heaviest fine of the 16 steelmakers – Ecu32m (£24.19m).

Mr Ruprecht Vondran, president of the German steel federation, said: "German steel companies will not accept this decision silently. They will instead defend themselves in front of the European Court of Justice and show that all principles of free competition have been respected."

The steelmakers are upset both by the timing of the decision and the judgment itself. Following dawn raids by the Commission's competition directorate in 1991, a judgment against the companies was made in 1992, but no fines were announced.

One steelmaker says it had heard nothing from the Commission on the matter for a year until this week's "controlled leak". This threatened to add further controversy ahead of Tuesday's crucial meeting between heads of the big producers and the Commission. The industry clearly believes the leak was intended to put pressure on it to agree to much-needed capacity cuts.

EU STEEL FINES

	Ecu
Arbed	11.2m
British Steel	32.0m
Unimetal	12.3m
Saarstahl	4.6m
Ferdofin	9.5m
Thyssen Stahl	6.5m
Preussag	9.5m
Ensidesa	4.0m
Aristrain	10.6m
Cockerill Sambre	4.0m
NHM Stahlwerke	150,000
Krupp Hoesch	13,006
Svenskt Stal	40
Inexa Profil	600
Norsk Jernverk	750
Fundia Steel	4

The Commission says that after 1988 – when the so-called manifest crisis regime in the industry ended – the industry was repeatedly told to cease cartel practices in beams and girders. The industry says it repeatedly sought guidance from the Commission on the legality of inter-company discussions.

According to British Steel, from mid-1988 the Commission authorised a framework of market monitoring. The UK producer rebuts the Commission's comments on market sharing – it says it increased its deliveries of beams to Continental markets nearly eightfold between 1986 and 1993.

Mr Moffat said British Steel wanted the Commission to be given the authority to vet subsidy cases before the aid is granted rather than retrospectively as occurs now. He said the company would not contribute to the capacity cuts fund if the subsidies issue was not resolved satisfactorily.

Former Italian premier tries to tarnish the left

Craxi pursues communist vendetta

By Robert Graham in Rome

Mr Bettino Craxi, the former Socialist leader facing an array of corruption charges, has celebrated the second anniversary of the Milan magistrates' anti-corruption crusade by handing the authorities a dossier on the illicit financing of his political enemies on the left.

The vendetta is aimed at Italy's former Communist party and its heir, the Party of the Democratic Left (PDS) in an attempt to tarnish the PDS with the same corrupt image as the other traditional parties in the run-up to the March elections.

The dossier may lead to investigation of several senior PDS politicians. Mr Massimo D'Alema, the PDS number two, yesterday called on Rome magistrates at his own initiative to clarify the matter.

Later Mr D'Alema said Mr Craxi was being sued for libel, adding: "It is unheard of in any civilised country for a politician to go and denounce his adversaries with baseless accusations."

Throughout the corruption scandals, the PDS has sought to distance itself from the behaviour of the post-war ruling parties. Party officials have insisted those members charged with corruption were marginal players.

Party members accused of corruption or illicit party financing have always claimed they were acting in a personal capacity. This was the case this week when Mr Renato

Craxi: bid to dish political enemies — Glyn Genin

Morandina, a councillor in the Veneto region, admitted receiving L200m (£81,030) from a Fiat subsidiary.

Mr Craxi and some of his colleagues claim the magistrates have been soft on the left. This is also the view of media magnate Silvio Berlusconi's election propaganda. Mr Berlusconi recently secured for his Forza Italia movement the candidature of Ms Tiziana Parenti, who was forced out of the Milan magistrates' investigative team. She says this was because she investigated too aggressively the affairs of the PDS.

Mr Craxi is determined to prove the Communists (PCI) received substantial funds from Moscow and enjoyed illicit financial support through deals with party-controlled co-operatives in northern Italy. In turn he has justified the taking of bribes by Socialists by the need to raise funds to fight communism.

Since the scandals broke two years ago, 2,993 have been arrested, and 338 deputies are under investigation.

Yesterday parliament agreed to waive immunity on Mr Gianni De Michelis, the former Socialist foreign minister, and Mr Gianni Prandini, the Christian Democrat former transport minister, to face corruption charges.

NEWS IN BRIEF

Poland clears way for IMF debt deal

Poland's parliamentary budget committee yesterday approved the 1994 draft budget, paving the way for an IMF-negotiated debt reduction programme with the Paris Club of western creditors, writes Christopher Bobinski in Warsaw. The Z83,000bn budget, already approved by the IMF, represents a public deficit of 4.2 per cent of gross domestic product. It is central to the IMF-negotiated agreement to reduce Poland's $33bn debt by 20 per cent. The budget still has to go to the full chamber for approval but yesterday's decision is likely to undermine a campaign on the left of the governing coalition for higher spending.

Europe's creditors kept waiting

Two thirds of small- and medium-sized businesses in Europe report growing delays in payment of debts and invoices, with the average waiting period across Europe some 65 days, a new survey reveals, writes Gillian Tett in Brussels. The survey says almost a quarter of small businesses say they wait more than 90 days for payment, while almost 10 per cent wait around four months. Worst affected is Italy, which has an average waiting period of 90 days, followed by Spain with 80 days. Sweden and Denmark have waiting periods of 38 and 36 days respectively.

Brussels to smooth beach rules

European Union directives on the quality of bathing water on European beaches will be streamlined and slightly modified, the Commission decided yesterday, writes Gillian Tett. Britain had complained that the regulations were too strict and expensive to implement. The changes will cut procedures used for testing water for the presence of nitrates and bacteria.

French fishermen admit defeat

French fishermen began returning to work after a two-week strike yesterday despite a widespread belief they had lost their battle against cheap fish imports, Reuter reports from Rennes. Strike leaders told fishermen to accept government aid worth Ffr450m (£51m) and resume fishing.

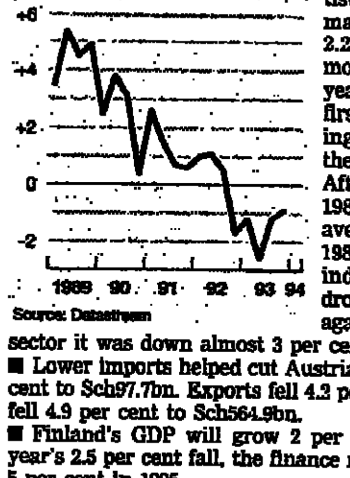
Slovak PM faces rejection

Slovakia's parliament yesterday rejected a proposal by Prime Minister Vladimir Meciar for early elections next June, Reuter reports from Bratislava. Opposition deputies predicted the defeat of Meciar's proposal would be followed by a vote of no confidence in his government within the next few days.

Swiss to appeal over Iranians

Switzerland will appeal to France's top administrative tribunal in a bid to prove that Paris violated international law by refusing to extradite two Iranians accused of murdering a leading opposition figure. The Swiss justice minister said France broke European extradition treaties when it returned the two suspects, Sharif Esfahani and Ahmad Taheri, to Iran in December, rather than handing them over to Swiss authorities.

Dutch output slips 1.5%



Dutch manufacturing output fell a provisional 1.5 per cent on average in 1993 compared with 1992, the Central Bureau of Statistics (CBS) said. In December, manufacturing output dropped 2.2 per cent on the previous month, giving a 0.3 per cent rise year-on-year. Last year was the first since 1982 that manufacturing output fell compared with the previous year, the CBS said. After dropping 1.2 per cent in 1982, output increased by an average 2.7 per cent a year from 1983 to 1992. In the chemical industry, last year's output dropped more than 3 per cent against 1992 and in the metal sector it was down almost 3 per cent.

■ Lower imports helped cut Austria's 1993 trade deficit by 8.1 per cent to Sch97.7bn. Exports fell 4.2 per cent to Sch467.2bn. Imports fell 4.9 per cent to Sch564.9bn.

■ Finland's GDP will grow 2 per cent this year following last year's 2.5 per cent fall, the finance ministry said. GDP would rise 5 per cent in 1995.

■ Foreign currency reserves in the Czech banking system reached $6.4bn in February, up from $6.29bn at the end of 1993, the Czech National Bank said.

Ukraine shies from continuing squeeze

By Jill Barshay in Kiev

The Ukrainian government is coming close to abandoning a tight three-month credit squeeze and is slowly bending to political pressure to issue a flood of new credits worth nearly 10 per cent of the country's gross domestic product.

Not even the presence in Kiev this week of an International Monetary Fund team, offering a $700m (£474m) loan in support of tighter monetary policies, appears to have softened demands for new growth in the money supply.

So far, the credit squeeze has been left to function without any accompanying fiscal support. "Strict monetary policy without reform is empty," Mr Victor Yushchenko, national bank chairman, told the FT. "It's plain cruelty when someone hasn't received his salary in five months. The only way is to issue new money."

Eighty days ago Ukraine began its first crude attempt to combat hyperinflation by a sudden clampdown on the money supply. Annual inflation was over 9,000 per cent in 1993. In December, with the squeeze in effect, inflation slowed to 190 per cent.

However, the squeeze hit all enterprises, solvent and failing. Many workers have not been paid. Others have been sent home on unpaid leave and enterprises have been unable to pay bills.

But after this brief adventure with a tough anti-inflationary policy, the government is on the retreat. Mr Leonid Kuchma, former prime minister and an active campaigner in next month's parliamentary elections, has reportedly vowed to bring the government down if credits are not released to enterprises.

Swiss voters threaten to buck traffic trend

By Ian Rodger in Bern

Picture the scene. An elegant chamois buck stands nobly on a mountain hillside against a background of Alpine flowers and a lorry-choked motorway. He implores you to vote "Ja" in a referendum on Sunday to force all transit lorries off the road and on to the rails.

Nothing tugs at the Swiss heart as much as a combination of Alps and wild animals, as the designers of this campaign poster know. And it seems there is a fair chance that a majority of Swiss will heed the buck's call.

The referendum, which arises from a petition by residents of Alpine communities four years ago, asks voters simply "to protect the Alpine region from transit traffic".

The fine print stipulates that approval would mean a ban on all lorries in international transit (as opposed to those on local or import-export journeys) from Swiss roads. It would also prohibit the government from extending or enlarging motorways on transit routes.

If a majority votes in favour of the so-called Alp Initiative, relations between Bern and the European Union, already strained by Swiss voters' refusal to join the European Economic Area 14 months ago, would become frosty indeed. Imposing a lorry transit ban, even after a 10-year transition period as the petitioners are demanding, would undermine a 12-year EU-Swiss transit treaty that came into force only last year.

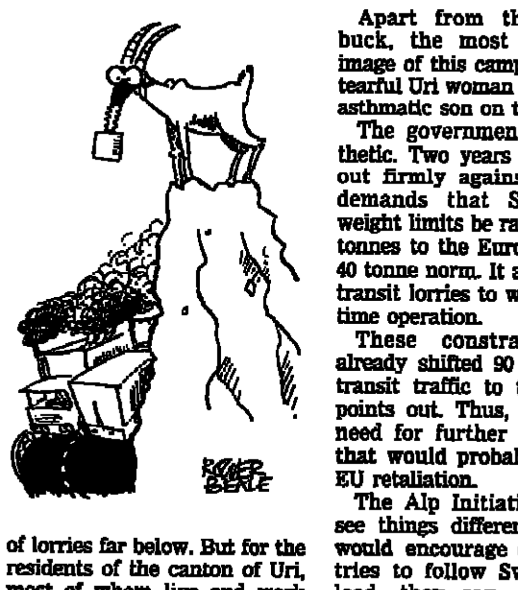
A vote to ban could also affect the European Union enlargement negotiations. Austrians, whose Alpine instincts are as strong as those of the Swiss, could become more obdurate in opposing Brussels' attempts to ease lorry transit restrictions in their country.

The mood in Bern this week is sombre, as government leaders acknowledge their failure to weaken the attractions of the Alp Initiative.

No opinion polls have been taken – partly because it is perceived to be an issue on which people might lie about their intentions – but everyone expects the outcome to be close.

The vote takes place against the background of inexorably rising lorry traffic through the Gotthard pass, which bisects Switzerland. Since the Gotthard road tunnel opened in 1980, daily traffic on this most convenient route between Germany and Italy has risen 30 times to 2,500 lorries a day, of which 40 per cent are in transit. The Swiss government is expecting a further surge to 6,000 by 2000.

For the occasional hiker, it is annoying to reach the peaks towering over the Reuss valley which leads up to the Gotthard pass and still hear the thunder of lorries far below. But for the residents of the canton of Uri, most of whom live and work cheek by jowl with the motorway in this narrow valley, the noise and fumes have become intolerable.



Apart from the chamois buck, the most memorable image of this campaign is of a tearful Uri woman showing her asthmatic son on television.

The government is sympathetic. Two years ago, it held out firmly against Brussels' demands that Swiss lorry weight limits be raised from 28 tonnes to the European Union 40 tonne norm. It also restricts transit lorries to weekday day-time operation.

These constraints have already shifted 90 per cent of transit traffic to the rails, it points out. Thus, there is no need for further restrictions that would probably provoke EU retaliation.

The Alp Initiative backers see things differently. A ban would encourage other countries to follow Switzerland's lead, they say, and would ensure that the new SFr20bn (£9.2bn) Gotthard rail tunnel that Switzerland is to build will attract plenty of business.

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Chile lights way for its neighbours

Stephen Fidler reports on a Latin American country that has turned the economic corner

President Eduardo Frei's government takes over in Chile next month facing a set of economic problems most Latin American governments wish they had.

Growth is forecast to slow to 4 per cent this year as a result of depressed export markets, from 6 per cent last year and 10.3 per cent in 1992.

Little change is expected in overall economic policy. "Chile is the one country in Latin America that really has turned the corner," says a senior World Bank official.

Many Chileans shrink from offering their experience as a model, given its genesis in the 17-year military regime of General Augusto Pinochet. The importance of authoritarian government to economic success is as yet unproven.

Mr Alejandro Foxley, the outgoing finance minister, argues that military regimes are inherently unstable. "Consensus policies should work better in the long run. They should provide more stability – military governments always end up being thrown out of power."

Stability is a strong theme emerging from conversations with Chile's economic policymakers. Mr Roberto Zahler, president of the independent central bank, says consistency and transparency of policy have been important concerns, among other things, promoting savings and investment. "We give lots of weight to stability, to soundness, to avoiding stop-go policies."

Mr Gert Rosenthal, head of the Santiago-based Economic Commission for Latin America, argues that Chile has been the guiding light for many of the region's market-oriented economic policies.

"Basically Latin America is copying the Chilean model in terms of export orientation. Countries are looking at private pension fund programmes, at policies of fiscal restraint, at establishing an autonomous central bank and at macroeconomic management."

Mr Foxley says there are elements that would be valid for almost any country. "Fiscal discipline, opening up the economy, a body of policies that allows the private sector to feel it can do its own thing. But I'd add another point: the importance of the role of the government – in ensuring public investment in infrastructure and the importance of generating enough revenue to be able to devote a lot of resources to investment in the social sectors."

Other important aspects of Chilean policy may be less appreciated. One has been managing the exchange rate to keep it as competitive as possible. This contrasts with Mexican and Argentine policies which have aimed at tackling inflation in part by keeping the exchange rate strong.

The Chilean government has accepted the downside of this – that inflation will come down more slowly than otherwise. "We are not attempting to stabilise prices instantaneously," says Mr Zahler. "We are in the process of a gradual, consistent, steady reduction in the rate of inflation."

Chile has also avoided the worst of the problems faced by other Latin American economies in coping with capital inflows. Many have been stuck in a policy conundrum: capital inflows led to appreciation of the domestic currency, generating increases in money supply. This has brought inflationary pressure. Yet if the government tries to mop up extra liquidity (by selling government debt) interest rates rise, deterring productive investment and encouraging further capital inflows.

Chile has managed to avoid this by keeping exchange controls in place, to the chagrin of some brokers and foreign investors. These have slowed capital inflows and reduced pressure for the exchange rate to appreciate. "In respect of capital controls, I think a lot of countries would be well advised to follow the Chilean model," says Mr Rosenthal.

By encouraging exports, it has also established a good environment for investment in the production of tradeable goods, providing in turn a base for export growth.

Investment in some countries has been driven by "a casino mentality", says Mr Rosenthal. In others, Argentina for example, economists worry that while there has been direct investment, it has been in services, utilities and local consumer industries – goods that have provided no base for future exports. Part of the reason for this, they argue, is that Argentina's strong exchange rate has made its exports expensive.

Investment in Chile surpassed 27 per cent of gross domestic product last year, the highest in Latin America. Foreign investors have also been encouraged by a perception that public administration is not hugely corrupt.

"One aspect in their decision-making that foreign investors always mention is that we have a reasonably efficient public administration. The general tone is one of probity, and for someone looking around for a place to invest, it's a strong point in our favour," says Mr Foxley.

Investment, however, has been financed mainly by domestic savings, which at 21 per cent of GDP, are the region's highest. This has reduced its dependence on foreign inflows and allowed it to maintain capital controls. Although the rising current account deficit does imply a higher dependence on foreign capital, most economists see it as short-term and easily financed.

Savings have been encouraged by several factors, including Chile's private pension fund arrangements, which are being copied elsewhere in Latin America and which have also helped to develop the domestic capital market.

According to Mr Zahler of the central bank, another important explanation has been indexation. This has assured Chileans that inflation will not erode their savings, although it has also increased inflationary inertia. "In an economy with such a long history of inflation ... indexation has been crucial for the financial system and in developing savings."

The other factor, he suggests, is growth. "When you have expectations that the economy will go on growing, then people tend to save."

Not everything is rosy. While unemployment has dropped to around 4.5 per cent, its lowest in 20 years, many of the jobs are low paid and of poor quality. The country is also still over-dependent on raw materials: only 20 per cent of its exports are manufactured goods, though the figure is rising. Its health and education systems are in great need of reform, Mr Foxley says.

Yet so uncontroversial has overall economic policy become in Chile, the new government has the chance to address these important issues.

Icy weather grips US economic growth

By Michael Prowse in Washington

Exceptionally cold weather could cause economic growth in the first quarter to fall short of administration projections, Mr Ron Brown, commerce secretary, said yesterday. He was reacting to the worst figures for housing starts in a decade. Starts fell 17.6 per cent between December and January, but officials said the decline mostly reflected the weather. Last month was the third coldest January in 99 years.

The decline in starts, which tend to be volatile on a monthly basis, followed disappointing figures for retail sales and industrial production, which fell last month after robust gains late last year.

Before allowing for disruptions caused by bad weather and the Los Angeles earthquake, most analysts – including the administration – expected first quarter economic growth at an annual rate of about 3 per cent.

Mr Brown did not indicate by how much growth might fall short of this target, but he claimed the bad weather would have only a transient effect. "The economy's underlying momentum remains intact."

Starts fell sharply in the northeast, midwest and south, all regions affected by severe weather. They rose slightly in the west in spite of the disruption caused in California by the earthquake.

However, even after last month's big fall, the national rate of starts was running at a seasonally adjusted annual rate of 1.29m, 11 per cent higher than in January last year, reflecting robust increases in building activity in the second half of 1993. Officials yesterday revised figures for December to show an increase in starts of 11.7 per cent rather than the 6.2 per cent previously reported. Analysts had expected bad weather to result in a fall in starts of about 9 per cent.

Building permits, a guide to future construction activity, also fell sharply last month. However, most analysts are confident that starts will rebound when the weather improves because of the stimulus from low long-term interest rates.

President Clinton watches a policeman practise on a shooting range in Ohio. Mr Clinton is calling for 100,000 more policemen on the streets to combat crime Associated Press

Reno's former deputy blasts anti-crime bill

By Jurek Martin in Washington

Mr Philip Heymann, the former deputy attorney general, has delivered a blistering critique on the effectiveness of important parts of the anti-crime legislation supported by the Clinton administration and now in front of Congress.

Mr Heymann only left office last week following disagreements over "management style" with Ms Janet Reno, attorney general. But in interviews published yesterday he sided with positions Ms Reno herself has frequently taken, particularly over the necessity of tackling the underlying social factors behind crime.

His largest objection was to the "three strikes and you're out" initiative, under which anyone convicted of three violent crimes would face life in prison without prospect of parole. This, he said, "sounds terrific," but "doesn't make any sense". He was afraid that the politics of crime "has overwhelmed serious debate".

His opinions were at variance with some of those expressed by President Bill Clinton, who went to a police academy in Ohio on Monday to urge fast action on crime. The president again insisted that 100,000 more policemen were needed on the streets, but also said that legislation on mandatory sentencing, which he endorsed in his state of the union message last month, needed careful drafting. He again stressed the importance of community responsibility in combatting crime.

White House officials, however, were not exactly pleased with Mr Heymann's interviews. Mr George Stephanopoulos, the senior adviser, sniffed "it's a free country and we just disagree".

In Mr Heymann's view, mandatory life sentences wasted money by forcing the incarceration of those over the age of 50, by which time most criminal careers were winding down. He also thought building massive new regional prisons for violent offenders would strain resources.

Argentine move on freed drugs suspect

By John Barham in Buenos Aires

Federal prosecutors in Argentina have demanded the arrest of a leading suspect in the country's largest ever drug seizure, following his release on bail at the end of December. The freeing of Mr John Arroyo Arias on \$30,000 bail has again thrown a spotlight on the government's inept drug control policies and the inadequacies of Argentina's judiciary.

Prosecutors have only now asked for Mr Arias to be detained again. A Colombian, he was arrested in July 1988 with eight other suspects accused of attempting to smuggle 585kg of cocaine from Bolivia. The drugs were to be sent on to Europe and the US. A further 1,124 tonnes were seized in the US as part of the same operation.

Mr Arias was released because he had spent more than five years in custody. Prosecutors only finished submitting evidence last year and now fear more suspects could be freed. International agencies say Argentina has grown in importance as a drug transshipment corridor and as a money laundering centre.

North Korea urged to open up all N-sites

By John Burton in Seoul and William Dawkins in Tokyo

North Korea's agreement to allow international inspections of seven nuclear plants was yesterday greeted with qualified relief by South Korea and Japan.

"Japan welcomes that decision," said Mr Masayoshi Takemura, chief cabinet secretary. However, North Korea must now accept inspections of two more undeclared nuclear sites, not included in the agreement, he said.

Both Seoul and Tokyo said more needed to be done to resolve suspicions over North Korea's nuclear programme. "This is only a beginning," said Mr Hong Soon-young, the South Korean vice-foreign minister.

Japan's opposition Liberal Democratic party, was scathing about the accord between North Korea and the International Atomic Energy Agency, describing it as full of ambiguity and criticising the government for failing to compile any "crisis management programme" to deal with North Korea's nuclear ambitions. Mr Ryutaro Hashimito, a leading LDP policy maker, urged the government to take a firm stand on possible economic sanctions against Pyongyang.

North Korea's suspected nuclear weapons programme has caused growing alarm among its former Japanese colonial rulers, especially since Pyongyang last year tested a missile that could have reached Tokyo.

North Korea's decision to admit inspectors from the agency also, to Japan's relief, reduces US pressure for sanctions against the communist regime. One of the few points of accord between prime minister Morihiro Hosokawa and US president Bill Clinton last week was to co-operate in imposing sanctions on North Korea, if it continued to refuse inspections.

Seoul indicated it would make concessions in response to North Korea's agreement with the IAEA. Officials suggested that the US and South Korea will soon announce the suspension of this year's joint annual "Team Spirit" military exercise, long a source of controversy with North Korea.

Other measures North Korea must undertake to dispel suspicions about its nuclear intentions, according to officials in Seoul, include:

- Accepting special inspections of two undeclared facilities, which are believed to be nuclear waste sites. They could provide evidence of whether North Korea has processed more weapons-grade plutonium than it has declared.
- Full return to the non proliferation treaty. North Korea claims its NPT membership is still under suspension and that it is under no obligation to respond fully to IAEA demands. The issue of whether North Korea will allow future regular inspections is apparently still open to question.
- Implementation of the 1991 North-South Korean agreement on de-nuclearisation. Spot inspections of suspected North Korean nuclear facilities, similar to the demands made by the IAEA, have been a main stumbling block to the agreement's implementation. Talks between the two Koreas on the issue have been suspended for more than a year.

South Korea is hopeful that bilateral talks with the North on nuclear inspections and other issues could begin soon.

A sweeper cleans beneath a statue of Kim il Sung, North Korea's leader Reuter

Accused endure a long wait for justice

Andrew Jack on events in the BCCI trial

In the relative comfort of the Police Officers' Club in Abu Dhabi, ten former executives of the collapsed Bank of Credit and Commerce International are awaiting the judgment of the court.

Periodically since last October they have been driven to the other side of the city to the court of the first instance for hearings, the latest of which is scheduled for this Saturday. Within a few weeks, they could face a drive elsewhere in Abu Dhabi – to the more spartan Al Wathba prison.

They are among the former officials of BCCI who are alleged to have been most closely involved in the frauds perpetrated within the bank over the past decade.

Their captivity began in autumn 1990, in the months following the period when Abu Dhabi says it was informed of fraud in April by Mr Swaleh Naqvi, BCCI's chief executive. Drawing on initial work which attempted to quantify the fraud, the authorities arrested some 20 individuals including Mr Naqvi. Since April, most of them have been moved to the state as Abu Dhabi asserted its control of BCCI and shifted its headquarters from London.

Several were released by the courts within months for lack of evidence, followed by more last year after an initial report to the public prosecutor. That left 14 to face charges in last July. One of these, Mr Arjmand Naqvi, has died.

Among the remainder still facing charges, is Mr Aga Hasan Abedi, founder of the bank, who is living in Pakistan and unlikely to stand trial. Another is Mr Ziauddin Ali Akbar, former head of the bank's treasury division, who last September pleaded guilty to 16 charges of false accounting involving more than $745m (£505m) of depositors' money and is now in prison in the UK.

The others held locally, who face charges of forgery, breach of trust, setting up fictitious accounts and falsifying loans, are: Hasan Mahmoud Kazmi; Fakhir Hussain; Abdul Hafeez; Zafar Iqbal Choudry; Mohammed Azmatullah; Imtiaz Ahmed; Ameer Ul Haq Siddiki; Iqbal Ahmed Ridwi (out on bail); Bashir Ahmad Tahir and Naseem Hassan Sheikh.

Defence lawyers have had a hard time fighting their case

Last month Abu Dhabi, as majority shareholder and creditor to BCCI, sued the detainees for $9bn, in an action concurrent with the criminal case.

The Abu Dhabi proceedings have been gripped by a recent sense of urgency. The periods between court appearances have been shortened, and it appears that future hearings may take place every few days.

One reason may be the agreement reached between the Abu Dhabi government and the US authorities last month. It includes a provision to hand over Mr Naqvi by May 8. Although government officials insist the judicial process is independent, they are also confident this deadline will be met.

Others are less convinced of this independence. It appears that Mr Naqvi's US lawyer is to be funded by the Abu Dhabi BCCI working group acting in its capacity as shareholder and creditor to the collapsed bank. The same group is believed also to be ultimately funding the costs of the public prosecutor, who has hired Arthur Andersen, the accountancy firm, to prepare its case.

Observers hoping for detailed revelations at the trial highlighting who was responsible for the BCCI frauds will be disappointed. After an initial blaze of publicity and open hearings, all proceedings from the beginning of January are being held in camera.

The defendants' lawyers are expected shortly to present their clients' defences. However, much of the work conducted by the judge who will make the decision on the detainees' guilt is being conducted in his chambers using information gathered in reports already submitted by the public prosecutor.

One problem is that the carefully concealed nature of the fraud, compounded with the Middle Eastern tradition which does not put all transactions to paper, means that much of the evidence is based on inference. This is partly backed up by interviews given by the defendants – generally without their lawyers being present.

The defence lawyers have had a hard time, arguing for access to additional documents, and – unsuccessfully – for bail or trial in another jurisdiction for their clients.

They say their clients have already served much of their sentence, since the maximum penalty under each charge is three years and this has already been reached because under local law 21 days counts as a month's imprisonment.

Others question how far the outcome will be fair and independently determined, given the enormous complexity of the case, the relative inexperience of the judge, and the traditional hierarchical way in which Abu Dhabi society operates.

Nissan to cut output in Japan by 4.7%

By William Dawkins

Nissan, Japan's second largest car producer, is planning to cut domestic output by 4.7 per cent this year, possibly presaging production cuts elsewhere in the Japanese car industry.

In the current year to March, Nissan expects to reduce output from 1.7m vehicles to 1.62m units in the coming 12 months, because of the continuing weakness of the Japanese market and a fall in exports to Europe, according to company officials. The decision will be confirmed by the end of the month.

This will be Nissan's lowest output for 23 years and well below its 2.2m vehicle annual capacity, they said. Production capacity will fall slightly to 2m units after the closure next year of Nissan's Zama plant, south of Tokyo.

The Japanese car industry currently has surplus production of around 2m units, roughly equivalent to the entire car market of Britain or France, according to estimates by the Japan Automobile Manufacturers' Association.

So far, Japan's car industry has avoided heavy redundancies. Instead, it has given workers extra free time, frozen new employment and cut prices paid to suppliers.

Nissan does not plan more job cuts on top of the 5,000 posts it already plans to phase out within three years. Workers will instead be given an extra seven to 10 days off per month, on top of the three days per month holiday given to workers since November.

Industrial output across the board is weaker than expected. Japan's overall production fell by 1.9 per cent from November to December, slightly worse than the provisionally estimated 1.7 per cent, said the Ministry of International Trade and Industry.

Top Israeli bankers may be jailed for five years

By David Horovitz in Jerusalem

Several of Israel's former top bankers face jail sentences of up to five years after being convicted yesterday of criminal responsibility for a stock market crash a decade ago that cost the government an estimated $7bn and severely undermined Israel's banking system.

At the end of a four-year trial, Jerusalem District Court Judge Miriam Naor ruled that four leading banks, a holding company, and six leading bankers had violated a 1977 law against selling shares under false pretences.

Two of the banks, and several executives, were also convicted of securities fraud. Two executives, and a third who has since died, were acquitted. Hearings on sentencing are scheduled to start next week, with sentences likely in about a month.

The four banks involved were Bank Leumi, Bank Hapoalim, Bank Discount and Bank Mizrahi. Former chairman of Bank Leumi, Ernst Japhet, who fled to the US in 1987 and returned last month following an extradition request, will be tried separately.

The 1983 crash was caused by the country's leading banks manipulating their own share prices – by buying each other's shares and vigorously encouraging their customers to purchase too. Bank shares became overvalued and when, on October 6 1983, shareholders began selling en masse, the bubble burst. The government was forced to step in, guaranteeing to redeem shares at their pre-fall value to the tune of $7bn.

PLO and Jordan agree on open border policy

By James Whittington in Amman

Jordan and the Palestine Liberation Organisation yesterday agreed an open border policy and wrapped up other details of future economic co-operation in a new spirit of co-ordination following months of animosity over progress in the Middle East peace talks.

After two days in Amman, delegates completed talks on issues relating to bilateral trade, infrastructure, and business ventures, all of designed to enhance Jordan's role in the West Bank following establishment of a Palestinian self-governing authority.

Foremost was a pledge to adopt an open borders policy for trade across the Jordan River. This comes one month after a banking agreement was signed giving Jordan a central role in developing the West Bank's financial sector with the re-opening of Jordanian banks expected soon.

Mr Mohammad Nashashibi, chairman of the PLO's department of economic affairs said this would create an effective economic union between Jordan and the Palestinians. But he expects fierce resistance from Israel at the next round of economic talks in Paris next week.

Israel and the PLO have not yet agreed on trade regulations for the new Palestinian entity. Israel is demanding restrictions on entry of Jordanian goods should be continued to avoid them finding their way on to the Israeli market at prices which undercut their own. Israel has suggested a customs union with the Palestinians which Jordan and the PLO say they will oppose.

On eve of elections, **Kieran Cooke** visits the state that has missed out on Malaysia's boom

Mahathir tries to woo untameable Sabah

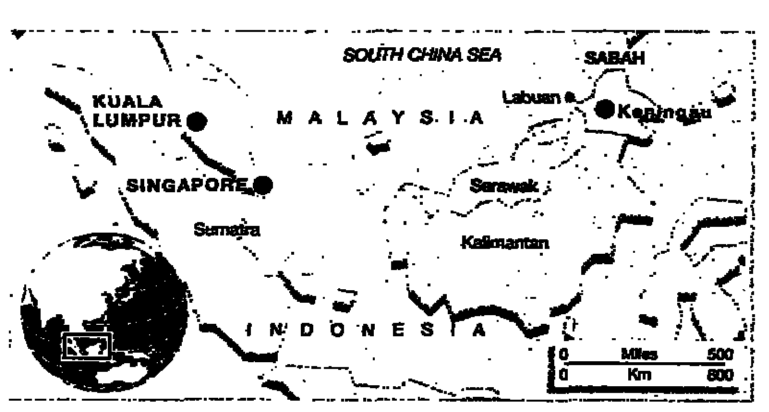
Keningau, in the interior of the state of Sabah, East Malaysia, has a down-at-heel look. Once it was a timber boom town but now most of the trees in the surrounding jungle have been felled.

An upmarket hotel was built in the town in the early 1980s to encourage tourism. But few visitors venture into this remote corner of the island of Borneo. People survive on small-scale agriculture and what is left of the timber industry.

Dr Mahathir Mohamad, Malaysia's prime minister, says Sabah – and towns like Keningau – have missed out on Malaysia's economic success story. While Malaysia's overall gross domestic product has grown by more than 8 per cent in each of the last six years, Sabah, the federation's second biggest state and potentially one of the richest, has lagged behind.

Tomorrow Sabah goes to the polls to elect a new state assembly.

Sabah, with a population of 1.8m, is one of only two states controlled by parties opposed to the ruling national front coalition, headed by Dr Mahathir. For the last nine years Sabah has been governed by the locally based United Sabah party (PBS), headed by Mr Joseph Pairin Kitingan, the state's chief minister.



According to Dr Mahathir, progress will only come when Sabah sees the error of its ways and rejoins the national front coalition, dominated by the prime minister's United Malays National Organisation (Umno).

Umno is now spending thousands, some say millions, on trying to win over Sabah voters. The heavily government influenced media has swung into action.

"Let us not waste any more time on the narrow sectarianism preached by ambitious and self seeking politicians," said Dr Mahathir in an election message to Sabah voters. "We can together transform Sabah into an economically advanced and spiritually resilient state that will make Sabahans proud ...."

But the majority of Sabahans seem unlikely to heed Dr Mahathir's message. A PBS victory once again seems likely, though Umno could succeed in denting the ruling party's majority.

Some voters fear the emergence of a one-party state in Malaysia. Kuala Lumpur, the Malaysian capital, is two and a half hours flying time away from Sabah. Many people in Sabah resent being pressured by what they perceive as a remote and uncaring federal administration. The PBS has successfully campaigned under the slogan "Sabah for the Sabahans".

Sabah's leaders say the federal government has taken away state rights to revenues from offshore oil production and tried to impose restrictions on the timber trade, a principal source of state revenue. Meanwhile Sabah has been starved of infrastructure funds. Repeated requests for a university to be set up in the state have gone unanswered.

Dr Mahathir does little to hide his impatience with the PBS, which he has long suspected of making moves to take Sabah out of the Malaysian federation. A brother of Mr Pairin and a candidate in the election tomorrow was only recently released after being detained without charge for three years under Malaysia's wide-ranging internal security laws.

In peninsular Malaysia politics is divided along racial lines. The Moslem Malays, who make up just more than 50 per cent of Malaysia's total population, vote for Umno. The Chinese, who have considerable economic power but little political clout, have their own party while the Indians also have their political group.

Sabah has very different political traditions. Over the centuries Moslems, Chinese and Christians have intermarried. In recent years hundreds of thousands of immigrants – some legal but many not – have crowded in from poor areas of the southern Philippines and the eastern islands of Indonesia. The PBS, while dominated by the majority mainly Christian Kadazan community, is a mixture of different races and religions.

There are fears that peninsular Malaysia's racial brand of politics could cause deep divisions within Sabah society.

Sabah has always been hard to discipline. For years Sabah's leaders treated the state like a private fiefdom in which financial handouts were the norm, coherent policies the exception.

One particularly profligate chief minister used to order his state aircraft to fly round Sabah airspace while he sat back in the clouds and watched Chinese Kung Fu films. Another indulged in grandiose road building projects: roads to nowhere are a part of the Sabah landscape.

Dr Mahathir and his Umno party are out to tame the state the early explorers called "the land below the wind". Dr Mahathir is a leader used to getting his own way. But Sabah looks like it is going to tread a solitary path yet again. It could be some time before Keningau sees any federal development funds coming to town.

Rangoon may hold talks with Suu Kyi

By Victor Mallet in Bangkok

Lt Gen Khin Nyunt, the most powerful member of Burma's military junta, may agree to hold talks with detained opposition leader Ms Aung San Suu Kyi, according to a US congressman who met them both in Rangoon this week.

"I think the future of Burma will be determined by two people: Lt Gen Khin Nyunt and Aung San Suu Kyi," Mr Bill Richardson, a Democrat ally of President Clinton, said in Bangkok.

Mr Richardson, the first foreigner other than her relatives to meet Ms Suu Kyi during her four and a half years of house arrest, brought her a letter from Mr Clinton expressing his support.

Ms Suu Kyi told him she wanted "a genuine, high-level dialogue" with the junta to resolve Burma's political deadlock. The armed forces crushed a pro-democracy uprising in 1988 and then ignored the results of a 1990 election convincingly won by Ms Suu Kyi's National League for Democracy.

Lt Gen Khin Nyunt, said he might be authorised by the ruling State Law and Order Restoration Council (Slorc) to engage in talks with her. He expressed the junta's desire for better relations with the US and said Slorc would consider allowing the Red Cross to visit other prisoners in Burmese jails.

Burma's generals are anxious to improve their international image after years of human rights abuses, but it is not clear how they will be able to embark on a substantial round of talks with the two sides so far apart.

Ms Suu Kyi sent out a message to her supporters via Mr Richardson saying: "Be courageous and democracy will win." The Slorc has silenced most of its other opponents and is devising a new constitution to entrench the influence of the armed forces.

"The Slorc made it very clear to me that talks do not mean political dialogue," said Mr Richardson. "What we're talking about is getting two people together to engage in a pre-dialogue."

Such a meeting, however, would be the least that would be required for the US to upgrade its relations with Rangoon, Mr Richardson said. "I think it's essential for Slorc to accept this proposal for talks," he said.

Nigeria economy fears grow

By Paul Adams in Lagos

Private-sector bankers in Nigeria have warned that increased government intervention in the economy in the wake of last month's budget will boost inflation, undermine growth and damage relations with western creditors.

The measures introduced by the military regime of Gen Abacha, include fixing the exchange rate and setting interest rates. They have worsened relations with official creditors and stalled talks on debt relief as Nigeria continues to default on its external debt of over $28bn. Arrears exceed $5bn. The government's domestic debt is more than N100bn ($4.5bn) yet the budget does not specify any money for servicing it.

The head of Nigeria's leading discount house told finance ministry officials: "By decreeing a 21 per cent cap on interest rates (nearly 80 per cent) below inflation, the government has attacked the root of a growing savings culture.

The central bank is today due to sell $100m to of foreign exchange at N22 to the dollar, whereas importers have been willing to pay between N45 and N50 since last September.

NEWS: WORLD TRADE

For Kantor, the Motorola case says it all

Michiyo Nakamoto and Nancy Dunne on US frustration at Japan's trade surplus

For a country that is known for its fascination with high technology, Japan has been remarkably slow to catch on to the mobile telephone revolution that has swept through other parts of the world.

Despite being the first country to introduce cellular phone services, Japan has fewer users of cellular phones as a proportion of the population than in any other industrialised country. Germany has acquired more cellular subscribers in the past two years, than Japan in the past 14.

Many see the culprit as over-regulation that has led to a stifling lack of competition. The number of service providers has long been restricted and worse still, what competition that exists is largely kept out of the most attractive Tokyo-Nagoya region where population is concentrated.

It is a matter which the US has taken upon itself to put right. With sanctions as its weapon, Japan's largest trading partner on Tuesday signalled its intention to foster greater competition in Japan's cellular phone market.

The announcement that it would start a process of sanctions against Japan comes after an almost decade-long campaign by the US to establish Motorola, the US industry leader, as a significant force in the Japanese mobile phones market. It follows a decision by Mr Mickey Kantor, the US trade representative, that Japan had violated bilateral agreements to allow comparable market access to US mobile phones and equipment in the Japanese market.

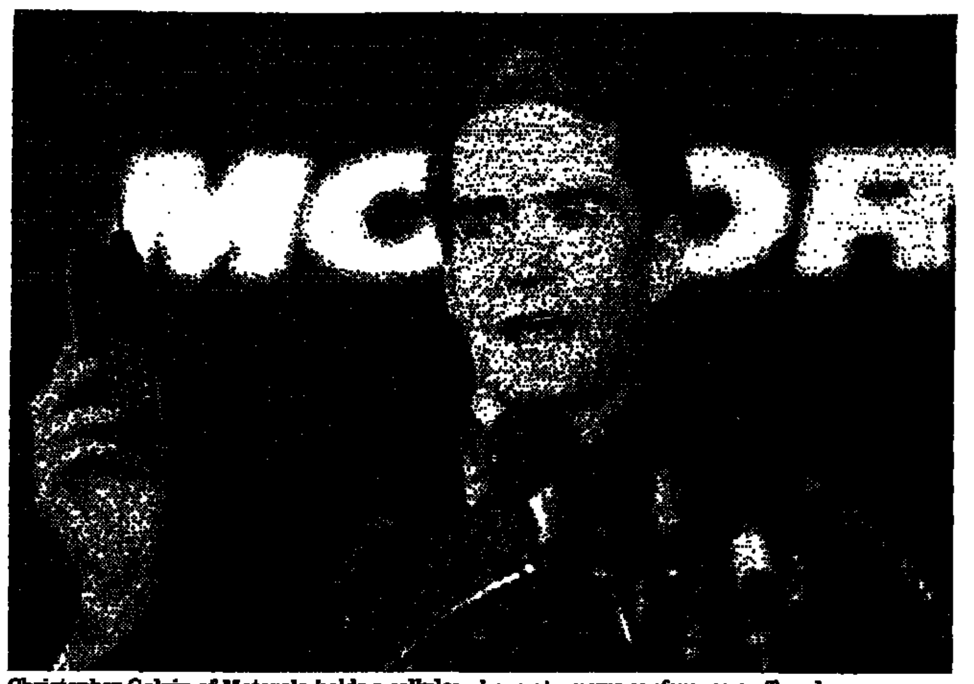
To Mr Kantor, the Motorola case goes a long way towards explaining Japan's $60bn trade surplus with the US.

The difficulty the US has had in penetrating Japan's market, despite previous threats of sanctions followed by concessions on Japan's part, reflects "a classic case of the determination of Japan to keep its markets closed, particularly to leading edge US products," he said when he announced the decision to start a process of imposing trade sanctions on Japan.

In agreements made over several years, Japan had promised the US to give Motorola an equal chance to compete with NTT, the Japanese telecoms group, by giving Motorola's cellular phone system the necessary radio frequency and infrastructure.

But the history of Motorola's experience in Japan has been one of broken promises, the US claims.

The dispute goes back to 1985 when the Japanese authorities decided to introduce a measure of competition into Japan's cellular phone market.



Christopher Galvin of Motorola holds a cellular phone at a news conference on Tuesday AP

Until then, NTT, which for long had a monopoly over telecommunications service, was the sole provider of mobile phone services and it was using a proprietary technology.

The ministry of post and telecommunications agreed to allow other cellular providers to compete with NTT. But NTT was authorised to provide cellular service through the country, while two competitors – IDO and DDI – had to divide the market between them.

The US took this opportunity to pressure Japan into accepting the use of a North American cellular phone technology known as TACS which was being used by Motorola.

But while they acquiesced under US pressure and agreed to give Motorola a chance, the Japanese telecommunications authorities nevertheless kept Motorola's activities restricted by excluding the TACS system from the densely populated Tokyo-Nagoya region where growth of cellular phones could be expected to be highest.

The MPT's first excuse was that it did not have enough radio frequency in that region to give to the TACS system. Then when it was discovered that frequency did in fact exist, the Japanese authorities devised a rather awkward compromise.

IDO, a cellular phone operator which was competing with NTT in the Tokyo-Nagoya region, was given responsibility for building up the TACS system in the Tokyo-Nagoya region and 5Mhz of frequency was allocated to IDO for that purpose.

The problem was that, IDO, though competing with NTT in that area, was doing so using NTT's proprietary cellular phone technology. IDO had already committed considerable sums to building up infrastructure based on that technology and therefore had little incentive to invest further in the TACS system.

Over the next several years, according to Motorola, a horror story unfolded with IDO refusing to take delivery of Motorola equipment to build up the TACS infrastructure, and, once it did, failing to do anything with it. Motorola handsets in shops spanning the Tokyo-Nagoya region were, meanwhile, hidden from customers' sight, the US company has claimed.

Instead of comparable market access, Motorola has faced persistent feet-dragging on the part of IDO in making investments in TACS infrastructure to allow coverage for the TACS system to equal coverage offered by NTT's mobile phones service. Today Motorola's phones can cover only 40 per cent of the Tokyo region, and its subscribers number only 12,900 in the area of 60m inhabitants, compared with over 310,000 customers for the rival NTT-compatible system.

While IDO has said it will increase investment in the TACs infrastructure, this will only bring coverage up to 56 per cent in three years, compared with 95 per cent coverage for NTT already, Motorola says. This does not constitute "comparable market access" that was promised to the US by the Japanese government, US officials say.

Given the necessary infrastructure, Motorola is confident that it can compete effectively in the Tokyo-Nagoya market. In some parts of Japan where the TACS system has been able to compete fairly with NTT's system, it has taken 50 per cent market share compared with less than 2 per cent in the Tokyo-Nagoya market.

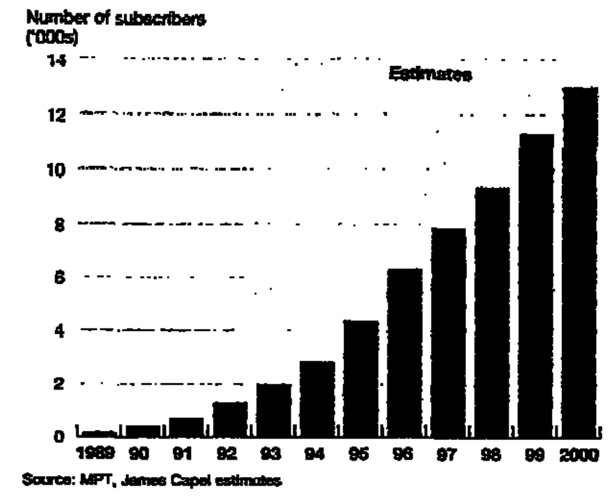
But the issue is not just one of unfair market barriers. As in other trade disputes, the US argues that it is the Japanese consumer that ultimately will benefit from its insistence on fair market access for foreign products.

The cost of using a cellular phone in Japan is two to three times that of other developed countries and effective competition is a proven way to bring prices down. While US calls for fair market access may grate on Japanese ears so soon after the collapse of bilateral trade talks, that is an argument that should win the applause of many a disgruntled Japanese consumer.

Meanwhile while sanctions are drawn up, negotiations will continue. It is a good bet that Mr Kantor will insist on the kind of "qualitative and quantitative indicators" Japan resisted in the broader framework talks.

If such an agreement had been negotiated in the first place, he said on Tuesday, then it could have specified when the IDO would have infrastructure in place for Motorola's use, and what percentage of coverage Motorola could expect from base stations and switching systems.

Japan: cellular subscribers



Source: MPT, James Capel estimates

Washington's findings leave Tokyo officials dismayed

Japanese officials were yesterday dismayed at the US finding that Japan has violated agreements to open up its cellular phone market, Michiyo Nakamoto writes.

Mr Takenori Kanzaki, minister of posts and telecommunications, denied the US allegation that Japan had failed to live up to its promise to increase market access for cellular phones and equipment made by Motorola.

Mr Mickey Kantor, US trade representative, concluded on Tuesday that Japan had breached agreements to give comparable market access to a North American cellular phone system known as TACS. Motorola, the US company, sells equipment and handsets in Japan based on the TACS system.

Mr Kanzaki said that the Japanese government is sincerely complying with the accord, and called the action by the US "one-sided".

"The Japanese government has done what it is our duty to do. We believe the North American mobile phone business is being actively promoted," he said.

Japan's trade surplus widens in dollar terms

By William Dawkins in Tokyo

Japan's contentious trade surplus rose by 17 per cent to $6.1bn last month, compared to January 1993. Shifts in currency values have masked an underlying shift in the balance.

The widening in the trade balance came despite a 3.6 per cent decline in export volumes in yen terms. Export volumes have now fallen for eight of the past nine months. Imports also fell, by 6 per cent in yen terms, so breaking an 11-month rise in import volumes.

Measured dollars exports rose by 7.5 per cent to $25.9bn, inflated by the rise in the yen's value, while imports rose less steeply by 4.8 per cent to $19.8bn, said the finance ministry.

The weak growth in imports reflects the sluggishness of domestic demand, an important feature of Japan's inability to satisfy US demands for a reduction in the trade surplus.

Hong Kong cargo forecast to treble

Cargo handled by Hong Kong's port, which has been ensnared in a Sino-British political row, is set to increase threefold by the year 2011, underlining the urgent need for new capacity, the Port Development Board said yesterday, Reuter reports from Hong Kong.

The board forecast container handling demand would be nearly 32m 20-foot (6-metre) equivalent units – the standard measure of container traffic – from 9m last year.

Forecast growth rates for all cargo were similar. "The massive increase in cargo throughput... underlines Hong Kong's urgent need for a new port," it said in a statement.

Hong Kong's container port, the busiest in the world, is enjoying a boom because of rapid industrialisation in neighbouring south China. But it has also become entangled in the dispute about Governor Chris Patten's drive to widen democracy in the colony before it reverts to Chinese sovereignty in 1997.

The Hong Kong government awarded the right to build and operate a ninth container terminal to three consortia as long ago as November 1992, but work has not yet started because China has refused to endorse the project.

Ironically, China would be the main beneficiary as most cargo passing through the port is composed of raw materials heading for south China factories or finished products en route to export markets in the west.

To cope with the increase, up to 25 new container berths would be needed at a planned 10th container terminal on Lantau island, near the site where Hong Kong is building a new airport, the board said. The airport is another infrastructure project caught up in the political row.

The board forecast there will be a need for the first berth of the Lantau port to begin operation in mid-1997 when the Tsing Ma suspension bridge opens.

The bridge will link Hong Kong's urban areas to the new port and the new Chek Lap Kok airport.

Unionists to reject Ulster institutions

By David Owen and Michael Cassell

Ulster Unionist proposals for a political settlement in Northern Ireland will argue that relations between north and south should be maintained by *ad hoc* meetings between Irish ministers and representatives of a devolved Ulster assembly, rather than by separate institutions.

This indication of the gulf that still separates participants in the current talks on the province's future emerged yesterday as London and Dublin sought to maintain pressure on Republican leaders to make a positive response to the Downing Street Declaration.

Speaking in Omagh, Sir Patrick Mayhew said Sinn Féin, the IRA's political wing, was now lagging behind public opinion. It faced "only one rational choice" in accepting the joint declaration.

The Northern Ireland secretary's message was backed up by Mr Albert Reynolds, the Irish prime minister, who said he believed Sir Patrick had recently given enough clarification to clear up any outstanding matters.

Speaking in Dublin three days before his next meeting with prime minister John Major, Mr Reynolds said he hoped Sinn Féin would give a positive response soon.

It also emerged at Westminster that the government is taking fresh soundings about the functioning of its ban on broadcasting the voices of terrorists or their supporters – less than two weeks after announcing restrictions would stay in place.

Ministers are concerned that the ban can work in the terrorists' favour by allowing their words to be spoken by actors while ruling out aggressive questioning.

It is thought highly unlikely that a move to lift the restrictions would come before Sinn Féin's annual conference later this month. Such a move would face stiff resistance at Westminster. A Downing Street spokesman said last night he did not think there were any "present plans" for a change.

The UUP proposals – to be published this month – focus mainly on the internal government of the province. They are expected to flesh out the "blueprint for stability" proposed by Mr James Molyneaux, the UUP leader in March.

Sir Patrick, who told local businessmen that peace would transform Northern Ireland's economy, called on Sinn Féin to renounce violence.

He added: "If the government were to negotiate with people who use violence for a political objective, where does that leave the constitutional nationalists?. It leaves them high and dry and really betrayed by a government of a democratic country. We are never going to do it."

Unstable element in the peace equation

Michael Cassell on the upsurge in violence by Ulster loyalists

Guns on the streets of Belfast: loyalist paramilitary groups are becoming increasingly well-armed

Picture: Pacemaker Press

This week's Valentine's Day bomb attacks on Northern Ireland's Roman Catholic community have heightened fears within the security forces that the province now faces a rising wave of loyalist paramilitary violence.

With IRA terrorist activity running at lower levels during the lengthening republican debate on the Downing Street declaration, loyalist attacks have been at the forefront of daily violence in Ulster and have triggered arguments over the real motives behind their escalating campaign.

The recent round of attacks, which have left three people dead and several others badly injured, have also provoked a fresh row among Ulster's political parties. Some nationalists are claiming that unionist attempts to explain the upsurge in loyalist extremism are fanning the flames of hatred.

The Royal Ulster Constabulary is also, once again, on the receiving end of allegations of suspected collusion between officers and the loyalist paramilitaries.

Loyalists who have traditionally claimed their attacks are in direct response to IRA violence and would stop if the IRA laid down its arms, now insist they are engaged in a fight to halt what they see as the political assault on the province's position within the Union.

The struggle to stop a looming "sell-out" to Sinn Féin has, apparently, now joined hatred of the IRA and impatience with the security forces' own efforts as a legitimate motive for their activities.

The newly extended loyalist onslaught, condemned as "particularly inexcusable and disgusting" by Sir Patrick Mayhew, Northern Ireland secretary, has involved attacks with guns, bombs and mortars. Targets have included Sinn Féin headquarters and nationalist politicians and there have also been apparently random attacks on Catholics.

Most of them have been claimed by the Ulster Freedom Fighters, an arm of the Ulster Defence Association, the province's largest paramilitary organisation.

The Ulster Volunteer Force, a smaller and more tightly-knit loyalist paramilitary group which in the past has carried out sectarian murders, has been lying low.

Dr Philip McGarry, chairman of the centrist Alliance party says the UFF campaign means "any Catholic is now a target of the loyalists". Mr Seamus Mallon, deputy leader of the mainly nationalist Social Democratic and Labour party, believes the paramilitaries are intent upon killing his party members, whereas previous attacks were primarily intended to intimidate.

Unionists have been criticised for talking about a "pan-nationalist" front embracing all Catholics and intent upon creating a united Ireland. Mr Peter Robinson, deputy leader of the Democratic Unionist party, is under attack for suggesting it was "probably logical that people in the loyalist community have seen that terrorism has worked for the IRA and feel that they can make it work for themselves".

The RUC is in no doubt that, if the IRA again steps up its campaign, the loyalist paramilitaries will do the same. The security forces believe that, while loyalist extremists may not be so well organised, the numbers of highly motivated, active volunteers are broadly on a a par with those of the IRA. Their weaponry has been improving, some of it shipped in from eastern Europe, and they have also proved themselves capable of operating south of the border.

Recent disclosures of a "doomsday" plan prepared by the UDA involving the creation of an "ethnically pure" protestant homeland in the event of a republican "victory" and British withdrawal from Northern Ireland were treated with scepticism by politicians.

But they again raised the spectre of loyalist paramilitaries replacing the IRA as the prime architects of violence in the event of a political settlement in the north.

Mr John Hume, SDLP leader, says it appears to him, in the wake of the latest attacks, that loyalists do not really want the IRA to say "yes" to peace.

He envisages a bizarre situation in which British troops remained on the streets of Northern Ireland solely to combat paramilitaries who insisted on staying British.

Church of England to review structure

By Alan Pike, Social Affairs Correspondent

The Church of England's central policy-making and management structure is to be reviewed by a commission established by the archbishops of Canterbury and York yesterday.

Church leaders are under pressure to find savings in all areas of the church's activities following severe reductions in the value of assets of the Church Commissioners, who handle investments. Church Commissioners support for clergy stipends is declining sharply, forcing parishes to finance a higher proportion of their running costs.

The commission will examine the church's national-level institutions – the General Synod, Church Commissioners, Church of England Pension Board and the offices of the two archbishops – and their relationships with dioceses and parishes.

Dr George Carey, archbishop of Canterbury, and Dr John Habgood, archbishop of York, urged the new commission "not to shrink from asking radical questions".

The church needs to increase its income by about £50m a year, while central administration costs only about £20m.

The commission, chaired by Rt Rev Michael Turnbull, bishop of Rochester and bishop-elect of Durham, is due to report by the middle of next year.

● The appointment of two "flying bishops" to minister to Anglican dioceses opposed to the ordination of women received a less than enthusiastic reception from church traditionalists yesterday.

The Ven John Gaisford, archdeacon of Macclesfield, and the Ven John Richards, archdeacon of Exeter, were named as provincial episcopal visitors and charged with the task of helping discourage opponents of women priests from leaving the Church of England to join the Roman Catholic church.

Plan for family doctors to 'purchase' hospital services

By Robert Peston, Roland Rudd and James Blitz

All of Britain's general practitioners are to become purchasers of hospital services in the National Health Service's internal market under plans which have been agreed by the Department of Health.

The plans, which are a radical extension of the market structure introduced in 1991, will force GPs to choose between being fundholders, buying services on behalf of patients from hospitals, or delegating their purchases to a new administrator, a fundholder manager linked to a district health authority.

The department also intends to provide purchasers of medical services with improved information about individual hospitals' efficiency by introducing two new performance measurements for hospitals.

The government is determined to push the fundholder scheme for general practitioners to the point where nearly all GPs will take part in the market for hospital services. As one health department official said: "The way to counter the two-tier arrangement [in which fundholding GPs are said to have unfair advantages over non-fundholders] is to push forward with the reforms." However, the introduction of such a system could upset the medical profession, which has been promised that GPs will not be forced to become fundholders.

Under the proposals, each fundholder manager would manage the health purchase budgets of groups of doctors. In consultation with their GPs, they would aim to ensure that the provision of services by hospitals is more closely matched to demand.

Though there is a ministerial commitment to push ahead with the reform, an official said the detail of how to implement the new arrangements is yet to be worked out. A formal consultation process with GPs is due to start in the spring.

The big question is the extent to which GP's would be asked to abdicate decision-making to administrators on which hospitals their patients would use, and which services would be purchased for them.

At present 6,000 GPs in 1,000 practices manage their own budgets as fundholders. They cover a quarter of the population.

By the time of the next election ministers believe only 20 per cent of GPs will not be fundholders.

LEGAL NOTICES

Petition No 0010521 of 1993
In the High Court of Justice
Chancery Division

IN THE MATTER OF
IGUZZINI ILLUMINAZIONE UK LTD
and
IN THE MATTER OF
THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 2nd February 1994 confirming the reduction of capital of the above named Company from £500,000 to £121,578 and the Minute approved by the Court showing with respect to the capital of the Company as altered the several particulars required by the above-mentioned Act were registered by the Registrar of Companies on 3rd February 1994.
Dated this 17th day of February 1994
MACKENZIE MILLS
76 Shoe Lane
London EC4A 3JB
Ref: CJC/PW
Solicitors for the above-named Company

IN THE MATTER OF
MACDONALD'S SPORTSWORLD LIMITED
AND IN THE MATTER OF THE INSOLVENCY RULES 1986

In accordance with rule 4.106 of the Insolvency Rules 1986 notice is hereby given that Vivian Murray Barstow and Neil Hunter Cooper of Robson Rhodes, 186 City Road, London EC1V 2NU were appointed Joint Liquidators of the above company by the members and creditors on 10 February 1994
Dated this 11 day of February 1994
V M Barstow and N H Cooper
Joint Liquidators

Clarke shrugs off fears over recovery

By Emma Tucker and Philip Coggan

Mr Kenneth Clarke, the chancellor, yesterday shrugged off fears that the UK recovery was running out of steam in spite of news that unemployment rose sharply last month.

The jobless figures follow monthly falls in manufacturing output and industrial production reported earlier this week, which cast a shadow over the pace of economic expansion. But the pessimism was lifted yesterday by other economic statistics showing that inflation remains under firm control and retail sales are buoyant.

Despite the conflicting messages, Mr Clarke said he was "quite confident" the economy was still on course.

Although the annual inflation rate in January rose to 2.5 per cent from 1.9 per cent in December, this was a smaller increase than had been expected. Meanwhile retail sales showed a 0.6 per cent month-on-month increase.

The UK stock market rose yesterday as traders anticipated that the poor unemployment figures might encourage the government to make a further cut in base rates. The FT-SE 100 index ended 24.5 points higher at 3,417.7, while long gilts rose a quarter of a point against a generally weak trend in European bond markets. The pound lost a pfennig after the figures were released but closed slightly higher on the day at DM2.5471.

The number of people without jobs and claiming benefit increased by a seasonally adjusted 15,500 in January, after falling a total of 149,800 in the previous four months. This took unemployment to a total of 2.787m, compared with 2.99m a year ago.

Mr David Hunt, the employment secretary, insisted that the trend in unemployment remained downwards, but said the path was likely to be uneven, especially over holiday periods. "The trend is still downwards but large falls in some months are followed by small rises in other months," he said.

However, a number of economists said the latest official figures pointed to ample slack in the labour market.

"The rise in unemployment, the fall in vacancies and weakness of overtime, strikes and weekly hours worked all point to a weak economy," said Mr Simon Briscoe, UK economist at SG Warburg Securities.

Further signs of economic fragility were highlighted by the state of public sector finances last month. Disappointing tax receipts were partly responsible for the lowest January surplus – £1.6bn – since monthly statistics started to be published in 1979.

The official figures for retail sales painted a brighter picture of consumer demand than was indicated by a Confederation of British Industry's survey earlier this week.

"Fears over the pace of recovery are misplaced," said Mr John Marsland, economist at UBS. "Sales volumes are growing at annualised rates in excess of 3 per cent, and this should be sustained despite tax increases."

Brussels funds poised to assist pit communities

By Gillian Tett in Brussels and David Lascelles

The European Commission has decided to allocate Ecu 400m worth of aid to coal communities over the next four years under the European Union's Rechar programme, it was announced yesterday.

A large part of the Rechar money, which was unveiled as part of the broader Ecu 13.45bn six-year programme for structural funding yesterday, is expected to go towards British coal regions, which have been among the worst-hit in Europe by the decline in the coal industry.

The money will be provided between 1994 and 1997 to support community projects for regions that have been affected by pit closures.

Commission officials yesterday said that although the overall sum of money had been decided at a meeting in Brussels yesterday, there was still no firm decision on the precise allocation of funds to the different member states. This could only be taken after further discussions and consultations with national governments, they said.

However, Mr Bruce Millan, regional policy commissioner is expected to unveil further details of the European-wide programme today in Brussels.

Although yesterday's decision did not earmark funds for particular regions, Britain's coalfield communities were confident that a large proportion – the equivalent of £150m – was coming their way.

Mr Hedley Salt, representing the coalfield local authorities, said: "Our areas are in desperate need of new industries and new jobs. This marvellous support from Brussels highlights how little has come from our own government."

Rechar funds have been held up in the UK because of disagreements between Brussels and Whitehall over their allocation. But when the pit closure programme was announced in 1992, the government held out the prospect of EU aid to soften the blow.

Britain yesterday welcomed European Commission proposals to scrap a series of compulsory health and safety checks on bathing water quality.

A total of nine "technical parameters" have been dropped by Brussels, but a commission spokesman said there had been no lowering of standards.

The government now says it can reach the European standards on 95 per cent of Britain's beaches by 1995. A total of 16,000 beaches are monitored under the 1975 Bathing Water Directive.

Police and protesters clashed yesterday at the site of a controversial road scheme in Wanstead, east London. Several demonstrators were removed after chaining themselves to furniture inside five Edwardian houses earmarked for demolition Picture: Press Association

Cable TV industry set to raise £2bn

By Raymond Snoddy

The UK cable television industry is expected to raise between £2bn and £2.5bn in debt finance this year to build cable networks, a much higher figure than expected and an indication of the changed City attitudes to the sector.

The forecast came yesterday from Mr Gary Stephen, head of media and telecommunications at NatWest Markets. He told the FT Cable and Satellite conference in London that there was "a sea-change" last year in the way the market valued cable assets.

The International Cabletel deal in New York, in which the UK cable interests of Insight Communications merged with OCom, a quoted US cellular communications company, valued a home in a cable franchise in the UK at £250 even where the network had not been built.

"In the space of 12 months, valuations per unbuilt home stretched from £10 to £250," said Mr Stephen, who said the market was still too immature to apply the figure as a general yardstick.

NatWest, however, was in the right circumstances, prepared to lend cable companies six times their cash flow.

Mr Stephen said he expected to see the emergence of publicly quoted cable companies this year. He did not give names but the industry believes that at least four of the largest companies – Telewest, Comcast, General Cable and Bell Canada – are all looking at the possibility of a flotation.

Mr Jon Davey, director of cable at the Independent Television Commission, said yesterday that the latest number of homes subscribing to multi-channel cable reached 611,423 at the start of January, an increase of 39 per cent in 12 months. The rise in telephone lines supplied by cable companies was more dramatic – an increase of 200 per cent to more than 314,000.

Britain in brief

Nationwide may end link with GRE

Nationwide building society is poised to announce the end of its relationship with Guardian Royal Exchange, the composite insurance group, and the setting up of its own life insurance company.

A statement from the UK's second largest society is expected within a few months. Nationwide must give GRE a year's notice of its plans to sever the existing links, through which it acts as a "tied agent", selling only GRE insurance products through its branches, for which it receives a commission.

£300m satellite order awarded

The government yesterday awarded a £300m contract for two military communications satellites.

Mr Jonathan Aitken, the defence procurement minister, said the Skynet 4 Stage 2 satellites would replace the existing satellites as they approach the end of their operational life. They will become operational in 1998 and will be for the sole use of the UK's military forces.

British Aerospace is the prime contractor for the work. The main sub-contractors are Matra Marconi Space (UK) for the satellite communications equipment and McDonnell Douglas of the US and Arianespace, the European consortium, for the launch rockets.

Channel tunnel security plea

Public confidence in the Channel tunnel would be undermined if private sector security organisations were given responsibility for counter-terrorist operations, Mr Frank Dobson, Labour's transport spokesman, warned in the Commons last night. He urged the government to ensure that the British Transport police force would be in charge of security at passenger and freight terminals in the UK.

Power sector tops utility returns

The electricity industry earned the highest returns on capital of the privatised utilities in 1992-93, according to a comparison of regulated industries.

The Centre for the Study of Regulated Industries reports today that the average return on historical capital employed in the non-nuclear electricity industry was 23.4 per cent over the period. This compared with 15.2 per cent in telecommunications, 13.6 per cent in gas, 10.9 per cent for airports and 10.6 per cent for water.

Crackdown on money laundering

Stronger legal powers to prevent money laundering came into force yesterday under the 1993 Criminal Justice Act. The act increases the maximum prison sentence for money laundering to 14 years, and created new laundering offences.

BA plans in-flight TV

British Airways is to launch a non-stop television channel for all passengers on long-haul flights at start of next month.

The single channel available to economy passengers will include light drama, documentaries, comedy, music, films and news. Club and first class passengers will have a total of eight channels of television to chose from including three film channels.

Regional airline is announced

A new airline aimed at flying businessmen from regional centres in the UK to continental Europe was announced yesterday.

Europe Direct will operate services from Bournemouth to Amsterdam, Paris and Brussels from April.

Mr Neil Hansford, chairman, said: "We also have plans for at least two other UK hubs."

MANAGEMENT: MARKETING AND ADVERTISING

A lifetime's travel for a literary type

Lucy Kellaway on a UK publisher's unlikely choice of sales promotion

What would T S Eliot have made of it? The company that publishes his poem *The Wasteland* is trying to boost its sales with the sort of promotion usually associated with vacuum cleaners and supermarkets.

"A lifetime's free travel – the monthly 'super' draw where no one loses," scream the headlines. "Nine great prizes must be won." All you need do is buy one of UK publisher Faber and Faber's slim volumes of poetry or English literature, and you could win enough money to cruise round the world for the rest of your days.

The promotion is one of the first of its kind in the publishing industry, which is only just discovering the marketing gimmicks that other industries have used for decades. First came promotions for individual authors and titles, now Faber is taking it one step further by promoting *the whole brand*.

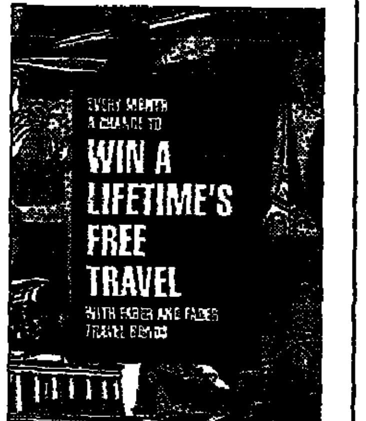
The move shows how hard publishers are fighting for market share. "During the recession they increased margins by cutting costs, now they are desperate to build turnover," says Penny Mountain, deputy editor of The Bookseller magazine.

Different publishers are going about this in different ways. In the next few months Penguin and Wordsworth Editions will declare a price war selling paperback classics for £1 each.

Faber's move is at the other end of the spectrum: it is throwing money at its brand to distinguish itself from the pack. The total cost of this promotion is £250,000, more than a quarter of the company's pre-tax profits last year.

According to Joanna Mackle, the scheme's creator, Faber is unusual in having a clear brand image to promote. Only a few other publishers – Mills and Boon, Ladybird, Virago and Penguin – are in this position. She says many readers consciously choose to buy a Faber book. "We are trying to strengthen that."

But even if people do choose books on the basis of who publishes them rather than who writes them, Faber's choice of



Buy a book to win a holiday

promotion could seem curiously down-market. Mackle says not, pointing out that these prize draws work just as well for quality British newspapers such as The Times as they do for the tabloid Sun. And if it means that Faber loses some of its rarefied image, that is not such a bad thing: "People can make us appear holier than thou," she says.

Up-market or down-market, these promotions appear to be a good way of selling literature.

Last year Faber launched its first such campaign, which held out the chance of making one reader a millionaire. Even though the big prize was not won, Mackle claims the promotion was spectacularly successful, and sold an extra £1m of books. The new travel promotion runs for three times as long and the main prize is worth twice as much again.

Since the beginning of the month, anyone who buys a Faber book is presented with a travel bond. They could win a weekend on the Continent, a transatlantic ticket for two, or a lifetime's travel worth more than £1.5m. There is, however, a "several hundred to one" chance against the main prize being won at all. But, just in case it is, Faber has taken out insurance to cover the cost.

Eliot is most definitely not turning in his grave, says Mackle. As a banker and a gambler he would surely have approved of the promotion.

One man's revolution

Reform of the media buying system has left France's advertising industry in chaos, writes Alice Rawsthorn

Michel Sapin, the former socialist finance minister who is now a founder member of the Bank of France's monetary policy council, is generally regarded as one of the more staid members of the fiery French political scene.

Yet Sapin gave his name to one of the socialists' most controversial pieces of legislation: *le loi Sapin*, the sweeping reforms of the French media buying system which were introduced almost a year ago and have since caused chaos in the country's advertising industry.

Le loi Sapin has, as the socialists intended, revolutionised the way that media space is bought and sold in France by ensuring that the advertisers pay for it directly rather than through intermediaries such as media buying specialists or advertising agencies. But it has also imposed intense financial pressure on the advertising industry and on some sectors of the media, notably newspapers and magazines, at a time when they are already struggling in the recession.

"What *le loi Sapin* has done is to reverse the balance of power in French advertising," says Neil Blackley, European media analyst at Goldman Sachs. "The pendulum has swung against the agencies and media buyers back to the advertisers."

Advertising executives condemn the law but their clients seem delighted. "We don't just think it's a good thing, we think it's excellent," says Alain Grangé-Cabane, deputy chairman of the French advertisers' association. "When we polled our members to see whether they approved of the new system overall – 95 per cent said 'yes'."

Under the old media buying system media space was bought for the advertisers by their intermediaries. The advertisers paid them the full price for the space as specified on the media owners' rate card and the intermediaries kept any discounts negotiated from the media owners.

But, because the intermediaries negotiated discounts for all their clients, individual advertisers did not know exactly how much their own space was worth. The system also favoured the biggest buyers. The chief beneficiary was Carat which expanded to account for more than a quarter of all media buying.

Under *le loi Sapin* advertisers pay directly for their own media. Details of each transaction are clearly visible and advertisers are allowed to keep their own discounts. In short, *le loi Sapin* has introduced the same system of media buying to France that already existed in most other European countries and the US.

The intermediaries should be able to compensate for the loss of their old discounts by charging fees or commission for planning and executing their clients' media buying schedules. But in practice the intermediaries have found this difficult. "Most French advertisers got free media buying under the old system," says Rebecca Winnington-Ingram, European media analyst at Morgan Stanley. "Unsurprisingly, agencies and media buyers have found it hard to persuade them to pay for something that they're used to getting for nothing."

The problem is most acute for the big media buyers, notably Carat, which were used to making substantial sums of money by wholesaling media space to their clients. Aegis, the marketing services group that owns Carat, last autumn announced a substantial financial restructuring programme, chiefly because of the impact of *le loi Sapin*.

France's larger advertising agencies are also suffering as media buying used to be one of the most profitable areas of their business. The French advertising agency association estimates that the gross profits of its 200 members fell by 10 per cent to FFr7.27bn (£830m) last year.

"It's impossible to identify how much of the reduction in profits is due to the recession and how much to *le loi Sapin*," says Philippe Legendre, head of research. "But I'd guess that it's half and half."

The industry is showing signs of strain. The level of employment among the association's members fell by 8 per cent to 9,260 last year. TBWA, one of the largest French agencies, last year lost its independence to be taken over by Omnicom of the US: as did FCA which was absorbed by France's Publicis.

The French press has also been destabilised by *le loi Sapin*. National newspapers have lost 27 per cent of their advertising revenue in the past two years, according to industry estimates.

This is partly because *le loi Sapin* has accelerated the long-term trend for advertisers to concentrate their expenditure on the most powerful media, such as television and radio.

Universal

Advertisers praise it, but Michel Sapin's law is condemned by the rest of the industry

Cultivating a taste for gourmet coffee

At about 8am at Coffee Connection, a gourmet coffee shop chain in Boston, dozens of people on their way to work line up to order espressos, cappuccinos, and exotic brews hailing from countries such as Guatemala and Kenya. In Italy or Latin America, the scene would hardly seem noteworthy – but in the US, birthplace of the watery, tasteless brew, the growth of speciality coffee shops is a remarkable phenomenon.

What is unusual about this success story is that these speciality coffee stores did not simply fill a market niche; they created it.

"When we started up [in the 1980s] people didn't really know what a good cup of coffee was," says George Reynolds, head of marketing for Starbucks, the chain which began the craze on the west coast. "So we faced a double challenge: not only did we have to make good coffee, we also had to create a desire for good coffee."

The speciality coffee chains – which also include San Francisco's Peet's Coffee & Tea and Gloria Jean's (a division of Brother Gourmet Coffees) – follow strikingly similar marketing strategies. If they are new to an area, they use free tastings to get the word out. "If there is a museum exhibit opening, or a sports event, we are there, handing out free coffee," says George Howell, president of Coffee Connection. After they have hooked their initial customer base, the chains rely mainly on word of mouth and education. They offer lectures, and print free "newsletters", available in the stores, covering everything from a special plantation in Kenya, to the art of making a good espresso.

"Through education, we perpetuate the coffee culture," says Suzanne Vanbemmel, director of operations for Peet's Coffee & Tea. "If we can get people talking about coffee, in the same way that a lot of people talk about different kinds of wine, then that will help create a demand."

Location is also crucial: "Not many customers are going to walk more than a couple blocks for a cup of coffee, no matter how good it is," says Michael Cronin, an analyst at Weston Presidio Capital. "So these companies' customer base is really concentrated in a very small area around each store's location."

Local media attention has helped. "When we open in a new market, we're flooded with calls to appear on local television stations or talk with the local press about our coffee," says Reynolds.

Many of the stores also sell coffee beans for home brewing and coffee paraphernalia, including stove-top espresso machines, coffee grinders and espresso cups. They maintain quality by buying and roasting the beans themselves, and can be fanatical about freshness. "After two weeks, we sell roasted beans half-price," says Curtis Bean, head of operations for Coffee Connection. "After a month, we give them to charity."

The formula seems to work. Craig Bibb, an analyst with Paine Webber, estimates that the US gourmet coffee business is now worth $1.5bn (£1bn) and will exceed $2bn by 2000. Analysts say the gourmet chains have reversed the long-term decline in total coffee consumption in the country. For the first time in more than a decade, consumption is increasing. As they expand into new cities and into each others' territory, the coffee chains will face greater competition. But they seem unconcerned, at least in the short-run. "There's so much room for this market to grow, we're not worried, says Kenneth Toltz, vice-president of marketing at Brothers. "With new players in the market, gourmet coffee gets even more attention, and that's good for all of us."

Victoria Griffith

PEOPLE

Bitter pill for Glaxo's Pappas

Arthur Pappas, the Glaxo director responsible for Canada and Latin America, has resigned from the group board with immediate effect following what the company describes as "differences of management approach and style". The company says that territorial responsibility for Canada and Latin America in itself did not warrant a seat on the board and that Pappas would not be replaced as a director.

Last year Pappas, 46, was given responsibility for examining Glaxo's options for entering the over-the-counter drugs market which led in July to its joint venture with Warner-Lambert.

But a Glaxo spokesman says Pappas's departure is not the result of any disagreement about the over-the-counter strategy though such a clash is thought to have been behind the ousting of Glaxo's chief executive Ernest Mario last year.

Glaxo also announced that Charles Sanders, 62, is to retire as chairman and chief executive officer of the group's American subsidiary at the end of the month. He will be succeeded as chief executive officer of Glaxo Inc by Robert Ingram, currently its president and chief operating officer.

Sanders, who has headed Glaxo Inc since he joined from Squibb in 1987, will stay on as non-executive chairman of the subsidiary and as a non-executive director of the group. A spokesman says he will be able to spend more time on industry issues, particularly the US healthcare reforms.

Ingram, 51, joined Glaxo in 1990 from Merck's Canadian subsidiary.

In a third change to the group board Glaxo announced the retirement of John Hignett, 60, who was executive director in charge of the management and investment of corporate funds. His responsibilities will be assumed by the finance director, John Coombe.

Finance moves

Ernst & Young International has appointed Michael Henning as its first international chief executive officer.

Ernst & Young International is an affiliation of national firms which maintain considerable independence rather than a single global operation. The creation of this position, therefore, marks part of a reorganisation of the network designed to strengthen its ability to serve multinational clients and create a common approach around the world.

As part of the change, the firm has also created three regional executives, who will report directly to Henning. Bryant McCarthy, based in New York, will be responsible for the international activities of the Americas region. Ben Gossens, based in Amsterdam, will take charge of Europe, Middle East and Africa. Paul McMahon, based in Singapore, will be in charge of Asia/Pacific.

Henning became co-chairman of the US firm in 1993, and was previously vice-chairman for tax services there. His new job will give him a role in shaping the future direction of the firm's 600 offices in 100 countries.

■ So two heads are not better than one after all. Little more than a fortnight after poaching Simon Howell from Merrill Lynch jointly to run its Eurobond syndicate desk, Nomura has lost its long-serving syndicate manager Andrew Pelling to NatWest Capital Markets.

At NatWest, Pelling will be deputy head of the syndicate desk and will report to his old friend, Jan McCourt, who gave him the job at Nomura all those years ago.

■ Roger Devlin has been appointed director and head of the corporate finance department of HENRY ANSBACHER; he moves from Corning Europe. Iac Koumi has been appointed finance director and Stewart Dick, formerly a director at Brown Shipley, has joined as a director in the banking department.

Kinnaird drives off to Santiago

Ripples from management shuffles in Inchcape's motors business late last year are carrying the youthful and energetic Peter Kinnaird all the way to Santiago.

Kinnaird, 41, is to take over responsibility for Inchcape's South American and Caribbean vehicle distribution businesses, with a brief to expand in rapid growth areas like his new Chile base, Mexico and Brazil.

This move gives a first taste of the globe-spanning flavour of Inchcape Motors' activities to Kinnaird, whose career to date has been spent with UK-based vehicle importers. He will move to Chile on April 5 from his current job as managing director of Daihatsu UK, responsible for importing and distributing the small Japanese leisure four-wheel-drive machines and cars.

Daihatsu UK is a direct subsidiary of Tozer Kemsley and Millbourn (TKM), the motor distributor which Inchcape bought for £376m at the end of 1991. Kinnaird has been running it for nearly three years, and was also MD of Alfa Romeo (GB) until the Italian manufacturer took the franchise back from TKM two years ago.

Kinnaird's successor at Daihatsu, a fairly small-scale business selling around 6,000 units a year, is Tony Darwall-Smith (left), 51, who is moving after 20 years at Rover Group from his current post as regional director for the south of England.

With Maurice Rourke, another TKM veteran, Kinnaird has thus emerged well from the Inchcape shake-up last November which resulted in the departure of Reg Heath, chief executive of TKM who was credited by Inchcape with having done a "terrific" job in integrating TKM into Inchcape. Rourke was appointed Heath's successor.

■ Patrick Wright (above), chairman and chief executive of Smurfit Ireland & UK, has been appointed to the group board.

■ Roger Marston, formerly md of International Resistive Co, has been appointed md of another TT GROUP subsidiary, Burgess Architectural Products. Nick Brewer has been appointed sales director. Neil Rodgers, formerly a divisional finance director, has been appointed md of AB Automotive Electronics, another TT Group subsidiary.

■ Peter Gunn has been promoted to md of the UK operations of CANADIAN OCCIDENTAL PETROLEUM.

■ Peter Atkin, formerly deputy group secretary at LADBROKE GROUP, has been promoted to group secretary and succeeds Christopher Andrews who remains group services director.

■ John Russell, formerly commercial director of Land Rover, has been appointed md of Rover International on the resignation of Chris Woodwark.

■ David Riddle, md of Cory Environmental, has been appointed to the parent board of OCEAN GROUP. Tony Harbour, formerly acting personnel director at Forte Group, has been appointed group personnel director.

■ Tracy Flanders has been appointed director of customer services at YORKSHIRE WATER; she moves from BT.

■ Richard Bide has been appointed group director of human resources at TATE & LYLE; he moves from Zeneca.

■ Mike van Eyck is appointed chief executive of ARJO WIGGINS APPLETON's printing and writing division, and Tony Swainston chief executive of its fine papers division.

■ John Lister, formerly director of business computing and telecommunications, has been appointed director of computing services at ASDA.

LEGAL NOTICES

Petition No 0010521 of 1993

In the High Court of Justice
Chancery Division

IN THE MATTER OF
IGUZZINI ILLUMINAZIONE UK LTD
and
IN THE MATTER OF
THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 2nd February 1994 confirming the reduction of capital of the above named Company from £500,000 to £121,578 and the Minute approved by the Court showing with respect to the capital of the Company as altered the several particulars required by the above-mentioned Act were registered by the Registrar of Companies on 3rd February 1994.

Dated this 17th day of February 1994

MACKENZIE MILLS
76 Shoe Lane
London EC4A 3JB
Ref: CJC/PW
Solicitors for the above-named Company

IN THE MATTER OF
MACDONALD'S SPORTSWORLD LIMITED
AND IN THE MATTER OF THE INSOLVENCY RULES 1986

In accordance with rule 4.106 of the Insolvency Rules 1986 notice is hereby given that Vivian Murray Barstow and Neil Hunter Cooper of Robson Rhodes, 186 City Road, London EC1V 2NU were appointed Joint Liquidators of the above company by the members and creditors on 10 February 1994.

Dated this 11 day of February 1994

V M Barstow and N H Cooper
Joint Liquidators

TECHNOLOGY

Beating criminals at their own game is the aim of a French mobile phone system, says **Della Bradshaw**

New weapon for the gendarmerie

When police in any big city pounce on a drug dealer's hideaway there is always a fair chance that the building will be empty, the bird flown. The criminals have used radio scanners to eavesdrop on police conversations and so are alerted to the swoop.

"When they arrest terrorists the police find bombs, they find arms and they always find scanners," says Bruno Rambaud, vice president of Matra Communications, part of the French Matra Hachette group. The scanners can be tuned in to the analogue radio waves transmitted by police radios and conversations easily heard.

The latest in digital mobile communications could change all that. In Rouen, in northern France, the gendarmerie, France's national police force, are pioneering a radio network which uses technology similar to the newest civilian radio. "Now it is possible to give the police the same technology as the people they are chasing," adds Rambaud.

Like the latest European cellular radio services, the gendarmerie's Rubis network uses digital technology, on which it is notoriously hard to eavesdrop. To make it even more difficult for criminals to decipher the gendarmes' conversations, the network uses an encryption system developed by the French military.

The Rubis network has one further advantage: by 1998, for the first time, the French gendarmerie will have a nationwide network with 25,000 phones operating on the same frequency. Until Rubis was first introduced, in July 1992, all forces had to select manually a new frequency to communicate with other groups, explains Bruno Chapuis, a captain from the Paris headquarters of the gendarmerie who is involved in the implementation of Rubis.

'People are looking at the free flow of police as well as the free flow of criminals across borders'

By implementing a widespread digital system, the French gendarmerie have become pioneers, closely watched by emergency services in the rest of Europe and the US. Throughout Europe, in particular, there is a growing awareness that crime is spilling from one police area to another. And the removal of national boundaries has increased fears of cross-border crime.

"People are now looking at the free flow of police as well as the free flow of criminals across borders," explains Phil Godfrey, market development manager for public safety at Philips Telecom PMR.

To do this, however, all European nations would need to adopt radio systems which worked together, preferably using the same radio technology on the same frequencies. With the French gendarmerie stealing a march on other emergency services the adoption of one technology now looks extremely slim.

The European Telecommunications Standards Institute (Etsi), which devises European telecoms standards, is in the final stage of defining a trans-European trunked radio system, called Tetra, to be used by Europe's emergency services as well as vehicle and taxi fleets. However, the technology as defined is very different from that used in the gendarmerie's proprietary Matra system.

The Etsi standard, which will not be mandatory, is based on a technology known as TDMA, in which each piece of a conversation or bit of data is slotted into a time slot within the radio channel. Several calls can be slotted side by side within one radio channel, which is 25KHz wide. It is a technique already widely used in cellular radio networks.

The Matra technology uses FDMA, in which each caller is allocated a chunk of the frequency. Once the call has ended, that chunk of frequency is re-allocated to another caller.

At a meeting of Etsi in March further technical options will be considered, using different techniques and frequency allocations, but the Tetra standard will go ahead in its current form, come what may, says Brian Oliver, chairman of the Etsi committee which is working on the standard.

"The TDMA 25KHz standard will be produced; it will not be shifted. That work will emerge." However, he adds, if there is a strong enough requirement from potential users, other standards might be defined.

To further complicate the issue another system, based on FDMA, is being adopted in the US.

Onlookers believe vested interests in both the manufacturing sector and government circles will result in the implementation of at least two different systems.

By 1998 the French gendarmerie will have a nationwide network with 25,000 phones

Matra is promoting its system by offering a free licence to other manufacturers to use its technology, arguing that it is available now while the final development of Tetra could be some time away.

Rival manufacturers are understandably suspicious of the offer. And they are unhappy about the indecision over a single European standard. "It's very uncomfortable for people to spend millions of pounds developing a system which could never be adopted," says Godfrey.

At Motorola, which has developed both FDMA and TDMA systems, the attitude is more relaxed. "We're keeping an open mind," says Andrew Dean, UK marketing manager for the mobile product sector. Motorola has already implemented two police radio systems which conform to the emerging US standard, in New Hampshire and Florida. As a result, says Dean, "our preferred solution today is FDMA".

It is up to the security forces to determine their needs and up to manufacturers to assess the market implications and decide whether they will make the equipment, says Oliver. But he believes the adoption of several different technologies will not necessarily prevent communications between emergency services from different countries. "Interworking could be arranged between the systems. It is up to the security forces to deal with their communications needs."

Rambaud agrees. "What is interesting the different police forces is interconnection through the infrastructure."

So far in Amsterdam the police authorities have stated that they want a network based on Tetra. In the UK, too, the Home Office has expressed a need for a unified system in England and Wales and stated a preference for Tetra.

Elsewhere, the Belgium emergency services have announced a shortlist of companies to tender for their network and Luxembourg is also planning a nationwide network.

The arguments for and against the two basic technologies are complex. Advocates of FDMA believe it is best suited to widespread networks which have few users – such as national police networks. Proponents of the wider band TDMA technology argue that it gives greater flexibility in providing sophisticated services using its extra bandwidth – while an officer is relaying details to colleagues of an escaped criminal, say, a photofit picture of the man could be sent alongside the phone call to a local printer.

TDMA also gives the potential for duplex – two-way – conversations. FDMA calls are simplex, with only one person speaking at a time.

Looking at the Rubis network, it is clear that digital technology, be it based on FDMA or TDMA, brings numerous advantages over older analogue networks. Because calls are automatically switched between callers the number of people needed in the despatch centre can be reduced, putting more police on the street.

A spokesman for the Rouen gendarmerie says the safety features are what have pleased members of the local force the most. By pressing a red button on the side of the phone, officers under attack can immediately alert fellow officers to the local emergency.

There is also a wide variety in the type of calls which can be made. As well as open conference calls, gendarmes can make person-to-person calls, particularly useful for senior officers in charge of the logistics of an operation. Or there can be group calls, in which up to five officers participate.

Data can also be sent across the same radio channel, and the patrol cars and vans are all equipped with portable PCs, plugged into the same electronic black box in the boot of the car as the telephone. By feeding the registration number of a car into the PC the officer can find out from the central database in Paris within just two seconds whether a car under scrutiny is stolen.

Semi-solids give extra strength

Ian Rodger on a Swiss company's technique for making car parts

With the world car market in its present shaky state, now might not seem a good time to be developing techniques for manufacturing automotive parts.

But Bühler, a large Swiss engineering group known mainly for its flour mills and other food processing machinery, is pushing ahead with a technology for forming high-performance light metal components.

The technology, known as rheocasting or semi-solid metal casting (SSM), was developed in the material science laboratories of the Massachusetts Institute of Technology in the early 1970s but did not attract wide interest until recently because the patent rights were closely held and poorly exploited and the car industry was concentrating on easier ways to reduce vehicle weight.

The technology is based on the fact that metal alloys move gradually from liquid to solid state over a range of temperatures. Within that range, they are in a semi-solid state with a consistency of butter or toothpaste.

MIT researchers, led by Merton Flemings, became interested in this phenomenon with a view to improving the quality of die cast parts. They focused first on steel alloys, then moved to aluminium where the temperatures involved were much lower and so the material was easier to work with.

The alloy, in the form of a semi-solid bar or slug, can be squeezed into a die or mould and cooled in the desired shape. MIT researchers discovered that this semi-solid state could be achieved in common aluminium alloys through a simple mechanical stirring process. Aluminium producers Alusuisse of Switzerland and Pechiney of France now do this by electromagnetic stirring.

The resulting component retains better metallic properties than one made from the conventional liquid die-casting process. In conventional die-casting, the process of injecting liquid metal into a die causes turbulence, which results in unpredictable levels of gas entrapment. This undermines the strength of the component.

SSM castings, on the other hand, are free of gas bubbles, and so can be heat-treated or welded and used in applications hitherto open only to premium cast or forged components.

Furthermore, because the SSM process uses lower heat levels than liquid die casting – about 580°C compared with 680°C – a consistent chemical analysis can be more easily maintained because fewer elements burn off. There is less oxide formation and much less shrinkage during cooling. Cycle time can be faster because there is no long wait for the component to cool.

SSM castings also have a big advantage over premium castings and forgings in that they can be made closer to net shape, thus reducing machining requirements.

Bühler, which is a leading producer of conventional die-casting machines, has been interested in SSM technology since the early 1980s. "We saw it as offering the opportunity for us to move into new markets," says Ken Young, vice-president, engineering and technology, in the die-casting division.

The group was one of the first to exploit the technology when the original MIT patents expired in 1992. It has developed a line of die-casting machines that can operate with both liquid or semi-solid metal feed – an electronic control automatically regulates the speeds and pressures of the plunger that pushes the metal into the die. Bühler calls its new line SC, an abbreviation of shot control, and says the control is sensitive enough to ensure almost perfect consistency of components.

Young says SSM cast parts can be produced at costs equivalent to premium castings, excluding savings on machining. Savings on parts that are now forged can range from 10 per cent to 50 per cent, depending on the part's complexity. So far, sales of the SC machines have been modest and the line is not yet profitable. But Bühler is willing to be patient.

Down the Main Street of American song

Many singers cross the Atlantic to Europe these days, but not so many songs. Europeans refer to "Lieder" and "mélodies", but have no convenient term by which to describe a tradition of American song-writing that embraces everything from homespun ballads to the star-spangled musical bits of Broadway.

On Tuesday the Wigmore Hall offered the curtain-raiser for its series "Discover American Song". Over the next six weeks American singers will roam down the Main Street of song history in the US. There is no music by Stephen Foster listed, so nobody will be singing of Jeanie with the light brown hair, but the main composers are there, not just Copland and Barber, but also Gershwin and Porter. A work called *Sunday at MacDonalds* has intriguingly been left until the end.

With the influence of airs and ballads, jazz and blues, the song tradition in America is remarkably diverse. For the purpose of this series the crux of the matter is the contrast between the "serious" songwriters who aspired to a European kind of art-song and the "popular" composers from the world of mass entertainment. *Most interesting* are those who managed to be both.

How clever of Barbara Bonney to send us away humming a tune by perhaps the most versatile crossover American of them all – Bernstein, whose "Tonight" she sang with touching understatement for her final encore. It was the right idea to include a medley of Richard Rodgers, though *the songs seem starved of air* in the stilted atmosphere of the recital-hall. Bonney was artful, intimate, when they really ask for a strong blast of honest Broadway vigour.

Most of the music in the first half will have been unfamiliar here. Six Elizabethan Songs by Argento proved to be well-made, not Tudor pastiche, more like less-than-memorable Britten. The last sets Ben Johnson's "Hymn", also used by Britten in his Serenade, and is quite different, spacious and reverential. A group by turn-of-the-century Griffes included one marvellously rich, late romantic song, "The rose of the night", which whets the appetite for more.

In the second half Bonney turned to the relatively well-known cycle *I Hate Music!* by Bernstein, which she made characterful without being brash. Her sweet, silvery soprano can sound unvarying over the course of an evening's solo recital, but not when she sings with as much insight as she did in Barber's *Hermit Songs*. This was the sort of performance that puts a work on the musical map, not least because Warren Jones found more in the piano part than any other accompanist I have heard. Do not be hesitant. There is a lot of American song worth the discovery.

Richard Fairman

Further recitals in the series March 2, 4, 6, 15, 25 and 29

Cinema/**Nigel Andrews**

Morals and mortality

SCHINDLER'S LIST (15)
Steven Spielberg

A BRONX TALE (18)
Robert De Niro

LA CRISE (15)
Coline Serreau

In any rollcall of movie-resistant subjects, the Holocaust's name would be read out first. How do you film a human tragedy *so inhuman*, in its conception and enactment, that some people today deny it ever happened?

The greatest achievement of Steven Spielberg's *Schindler's List* is to make the "impossible" seem possible. The Holocaust did happen and the human imagination – even the Hollywood imagination – may be able to encompass it. Shooting in a harsh high-contrast monochrome, Spielberg and cameraman Janusch Kaminski combine handheld camera movement with the *chiaroscuro* of old archive footage. Directors have stolen the traditional clothing of truth before – Documentary Material Never Lies – to masquerade as guides into history. But here the clothing seems truly to take the film over. It becomes one with that past: not just the trappings but the real terrors beneath.

Thomas Kenneally's truth-based novel was a controversial Booker Prize winner in its day. Was it fiction or fact or bits of both? German businessman Oskar Schindler, played in the film by Liam Neeson, did exist and did rescue over a thousand Jews from extinction by "buying" them from the Nazis to work for his munitions plant in occupied Czechoslovakia (a plant that managed, we are told, never to produce a usable shell).

Previously, Schindler had employed Jews in his Krakow porcelain factory, before and briefly after the emptying of the ghetto in 1943. And if we believe the book and film, he begged, bribed or blackmailed SS officers he knew, notably the sadistic Amon Goeth who ran the Plaszow camp outside Krakow, to spare Jewish victims.

So was he Saint Oskar? Is Spielberg's film a hairshirt hagiography? Mercifully not. For most of the film's 3¼ hours Spielberg, Neeson and screenwriter Stephen Zaillian make their "hero" even more of an enigma than Kenneally did. Neeson's profile – part Botticelli pin-up, part jungle predator – is lit by Spielberg with an eerie emphasis, so that it seems both beautiful and monstrous.

Towering above fellow actors, Neeson swishes through offices and SS parties in his *haute couture* greatcoat, pressing the flesh both manually and sexually. His appetite for women give an edge of ambivalence to his Galahad antics as a Jewish saviour. Is he in it for virtue or for cosy side-helpings of vice? Is he in it, indeed, just for the commercial bonus of cheap labour?

Once the horrors begin, the play-off between equivocal hero and unequivocal history becomes hypnotic. While watching from a hilltop the clearing of the ghetto, Schindler *seems* to make his inner commitment to risk all to help the Jews. But we only intuit. He sees what we see, so we project onto him our responses: to the random killings, *the firestorm of SS machine-guns* in a room where Jews are hiding out, the boy whose stomach is blown out as he is marched back after an escape attempt, the fleeing girl eerily picked out in a red coat.

When good and evil can be play-acted or tinged with pragmatism, what are the guideposts of human action?

Once we know that the safety-catch is off Spielberg's imagination, as it never was in his earlier second world war venture *Empire Of The Sun*, *Schindler's List* becomes a game of "dare" between audience and film-maker.

Will he give us an Amon Goeth as diabolical as Kenneally and history suggest? Yes: this is the camp commandant – sometimes more modernly camp in Ralph Fiennes's see-saw intonations and "Cherman" accent – who brutalised his prisoners with beatings and bullets (including morning rifle practice from his villa balcony). And will Spielberg tear down the tasteful veil usually imposed between audiences and feature-film portraits of prison camp life? Yes: the film's ragged or naked prisoners are closer to newsreel reality than any screen fiction has managed before.

The bravest decision is to resist giving us any frontline identification figure among the Jews. Easy to have laid on "the Little Boy" or "the Helpless Girl" or "the Old Watchmaker": a character to whose shirt-tails we could cling, comfortable in that facile pathos. But with the victims seen collectively, the need to individualise our sympathies is turned back on the most difficult character of all, Schindler. And when *he* proves unyielding, we even try to find a chink of humanity in Goeth.

This Nazi officer is given one overwhelmingly funny, pathetic scene of self-transcendence in which he tastes the "power" of mercy. Schindler, in conversation, has tried to disarm Goeth's cruelty-addiction with some sophistries about the thrill of *sparing* life rather than taking it. So for a while – roughly, half a morning – Fiennes becomes saint rather than sinner. He pardons those who offend him and practices his melting "Messiah" look in the shaving mirror. Then, bored with that, he takes up his gun again.

Here and in the movie's other two great scenes – a game of cat-and-mouse with a gun-threatened prisoner, a step inside the gas chamber itself – Spielberg takes us to the *moral and emotional brink*. When life and death are as arbitrary as this, and when good and evil can be play-acted (Goeth) or tinged with pragmatism (Schindler), what *are the guideposts of human action?*

Schindler's List only backs away from the grim near-nihilism of its vision at the close. Preparing to flee his factory as peace breaks out in 1945, Neeson's wheeler-dealer is given a speech of valedictory emotionalism as if to signal to us "Ah! He had a heart! He was a saint all along!" This scene is a deathbed Hollywood repentance in a film we have admired up to this point for its ability to look straight into the face of a godless time, beyond all the special pleadings and false sanctities of past Holocaust cinema.

Talking of special pleadings, here is Robert De Niro's directing debut, *A Bronx Tale*. This film does for the New York Mafia what Saatchi and Saatchi have done, in recent elections, for the Conservative Party.

You know the Mafia? Very nice people with Italian accents and good suits? Well, when neighbourhood boss Sonny (*Chaz Palminteri*) befriends nine-year-old Calogero, the boy's bus driver father (Robert De Niro) takes at first a dim view. No, De Niro *won't* run a numbers racket for his son's new friend. And no, he *don't* like the two of them hanging out together in dives and gambling joints and police stations.

But we are supposed to like it: mainly because Sonny is one of those mobsters with a notional heart *of gold beneath the shiny suit and* bulletproof vest. The film is based on a stage play by Mr Palminteri and plays like it. Not so much in a claustrophobia of setting: plenty of street life and driving around in cars. More in a sentimental claustrophobia of concept. This is a rites-of-passage *movie where a boy learns Who His* True Friends Are.

Coline Serreau's *La Crise* is our old friend, the French buddy movie about the life-battered romantic from the educated classes (Victor Landon) and his blue-collar Sancho Panza friend (Patrick Timsit). While *Landon suffers serial crises* – wife walks out, boss sacks him, parents split up – Timsit scurries alongside, spouting the wisdom of the working classes. Serreau directed the original *Three Men And A Baby* and still seems to think films are like Christmas crackers: funny hats, a few plot *surprises and a pinbrained serio*-comic message about humanity.

Ralph Fiennes as the sadistic Amon Goeth in Spielberg's brave film, 'Schindler's List'

Opera/**Max Loppert**

A new twist to 'The Turn of the Screw'

In the Glasgow Tramway, that *gloriously* rough, untamed and mysterious theatre space, Scottish Opera has taken up a first-ever period of residence. The choice of work is, on first glance, entirely apt: Britten's *Turn of the Screw*, which requires an orchestra of only 14 and a cast of only six, and which solicits its chilling beauties of sound, mood and atmosphere from the most economical and flexible of musico-dramatic substances.

On second glance – which on Tuesday took place during the rather fidgety early stages of David Leveaux's *new production* – the opera's demands *for* a proscenium-arch prove not always answerable in this loosely defined auditorium.

The Governess arrives – by bicycle, not coach – at a Bly spread out over a floor of bark-turf, and framed by a huge cracked, tilted window, a spiral *staircase* and a pool of murky-looking water (designer: Vicki Mortimer). For the precise scene-setting of Britten and his librettist, Myfanwy Piper, the substitute here appears to be an all-too-familiar kind of "experimental music-theatre": the gap between it and the opera's fine-tuned exactnesses threatens to yawn wide.

Miraculously, the performance then sets about healing *it up*, with a distinctiveness of dramatic purpose that grows ever more sure. Leveaux, a distinguished theatre-director making his first sortie into opera, has divined a way of exploring the trauma-haunted inner avenues of the drama by means of an intensely physical response to the text.

The private rituals that unfold between the children, at all edges of this increasingly wide-flung and eerily lit theatrical environment, and the agonies of the adults are enacted with sometimes hair-raising vividness. No-one who has witnessed this Miss Jessel scrabbling desperately in the turf, or this Flora turned by the end into a screaming, spitting fury, is ever likely to forget it.

In sum, this production mines frightening new insights out of *The Turn of the Screw*, a masterpiece capable of supporting just such adventurous theatrical investigation. Leveaux is immeasurably helped by the unswerving commitment of his cast. The children (the touching, slightly frail-voiced Colin McLean and the astonishingly powerful Paula Bishop), Menai Davies's *classic Mrs Grose and Louisa* Kennedy-Richardson heart-rending Miss Jessel all rise triumphantly to the challenge.

Philip Salmon (Prologue and Quint) sings words and notes with Pears-like eloquence. Anne Williams-King, an impulsive, passionate actress with a shining, sometimes unruly soprano, charts the Governess's course with a full-bloodedness that becomes ever more moving in its urgency.

Side-stage disposition does not always aid the band; the conductor, Timothy Lole, occasionally risks pressing the (excellent) instrumentalists to melodramatic extremes. But the positive aspects of this remarkable Scottish Opera achievement render its handful of negative ones of small account.

At the Tramway, Glasgow: until February 26; sponsored by Scottish Opera's "I'm Backing Britten" campaign

Malfitano's debut as 'Fidelio'

From Geneva ***Andrew Clark*** *reports on a singer who refuses to be categorised*

It is disconcerting to find Catherine Malfitano dressed as a man. The American soprano *looks* so natural playing strong feminine roles, from Poppea to Lulu, that a major adjustment is required when she walks on *stage as Leonore in Fidelio* – in which she has just made her debut at Geneva. This is the latest risk in the career of a singer who refuses to be categorised, *and she pulls it off* by the narrowest of margins.

She was wise in her choice of setting. The Grand Théâtre allows her sweet-sounding voice to blossom, and there can be few more powerful modern productions of *Fidelio* than Johannes Schaaf's, first staged in 1989. Malfitano cuts an unrecognisable figure in black beret and loose-fitting jacket, her neatly-parted hair adding to the boyish look. However magnetic her stage personality, she cannot hide the fact that masculine frowns are not her strong suit. It is only in the *final scene, when her true* identity is revealed, that the character achieves some depth.

What really distinguishes her portrayal is her singing.

This Leonore may lack the heroic, large-scale dimension, but she never utters a harsh or ugly note. She treats Beethoven's *coloratura to a spring*-clean, articulating the notes with an eloquence a true dramatic soprano would find hard to match.

The other newcomer to the cast is Falk Struckmann, who has suddenly emerged as Germany's *leading Heldenbariton*. His Pizarro oozes ruthless authority, thanks to a strong, masculine stage presence, teutonic good looks and a commanding voice. *His diction is* outstanding. Hans Tschammer remains a sympathetic Rocco, Thomas Moser a noble Florestan. Friedemann Layer's conducting is *precise and tightly* controlled – not everyone's taste in Beethoven, and certainly not mine.

Schaaf's production, *designed by Peter Pabst, sets* the first act in a concentration camp and the finale on a bed of roses. The result is serious, contemporary and moving. It underlines the gap between man's aspirations, hopes and utopias and the brutal things we do to each other – no different now to Beethoven's time.

INTERNATIONAL ARTS GUIDE

■ ATHENS

Megaron Tomorrow: guitar recital by Roberto Aussel. Sun: Hans Peter Blochwitz song recital. Mon: Janis Vakarelis piano recital. Next Wed: Mikhail Rudy is piano soloist with Athens State Orchestra in charity concert for World Wide Fund for Nature (01-728 2333/01-722 5511)

■ BARCELONA

Palau de la Musica Tomorrow, Sat, *Sun morning*: Franz-Paul Decker conducts Barcelona City Orchestra in Bruckner's Eighth Symphony. Sun evening: Jordi Casas directs Catalan Baroque Orchestra and *Chamber Choir* in Bach motets. Feb 26, 27: Czech *Radio Symphony* Orchestra. March 4: Alfred Brendel (tickets 268 1000 information 317 1096)

■ BOLOGNA

Teatro Communale Tonight: Alban Berg Quartet. Tomorrow, Sun afternoon, next Tues: Daniel Oren conducts Jonathan Miller's Monte Carlo production of Maria Stuarda, with cast headed by Kallen Esperian, Gloria Scalchi, Gregory *Kunde* and Giovanni Furlanetto. Mon: Bologna Chamber Orchestra plays works by Mozart, Mendelssohn, Britten and Villa-Lobos, with violin soloist *Massimo* Quarta (051-529999)

■ FLORENCE

Teatro Verdi Tomorrow, Sat, Sun, next Tues: MaggioDanza in Peter Schaufuss' production of La Sylphide. Feb 25 in Teatro Communale: Zubin Mehta conducts first programme in Spring concert series (055-277 9236)

■ LONDON

THEATRE

● The Kitchen: Stephen Daldry has chosen *Arnold Wesker's 1959* play for his first production as the *Royal* Court's new director. Previews from tonight, Press night next Tues (Royal Court 071-730 1745)

● The Life of Galileo: a new version of Brecht's masterpiece *directed by Jonathan Kent, with* Richard Griffiths in the title role (Almeida 071-359 4404)

● An Absolute Turkey: Felicity Kendall plays a harassed wife and Griff Rhys Jones a frantic bachelor in Peter Hall's enjoyable production *of* Feydeau's Le Dindon (Globe 071-494 5065)

● Oleanna: Denis Lawson and Michelle Fairley in David Mamet's powerful two-hander about sexual *harassment* and political correctness (Duke of York's 071-836 5122)

● Medea: Diana Rigg's award-winning performance in *Euripides' vengeful tragedy transfers* to Broadway after Feb 26 (Wyndham's 071-867 1116)

● Relative Values: Susan Hampshire, Sarah Brightman and *Alison Fiske head the cast in Noel* Coward's sparkling comedy (Savoy 071-836 8888)

● Crazy for You: a lavish romantic musical filled with showstopping *numbers, based on Gershwin's 1930* hit Girl Crazy (Prince Edward 071-734 8951)

OPERA/DANCE

Covent Garden The Royal Opera has Tim Albery's new production *of Massenet's Chérubin*, with cast headed by Maria Bayo and Angela Gheorghiu (in repertory till March 1). Simone Young conducts a revival of Rigoletto on Sat with a cast headed by Giorgio Zancanaro, Francisco Araiza and Young-Ok *Shin (till March 11). There is a final* performance tonight of Elektra with Eva Marton, Marjana Lipovsek and Nadine Secunde (071-240 1066)

Coliseum ENO tonight revives David Pountney's staging of Falstaff with Arwel Huw Morgan in the title role *and Janice Cairns as Alice* (in repertory till March 29). Jonathan Miller's new production of Der Rosenkavalier, conducted by Yakov Kreizberg, has a cast headed by *Anne Evans, Sally Burgess and John* Tomlinson (till March 16). There is a final performance next Thurs of Nicholas Hytner's production of Xerxes (071-836 3161)

Sadler's Wells Feb 21-26: English Touring Opera presents its popular productions of L'elisir d'amore and La boheme (071-278 8916)

CONCERTS

South Bank Centre Tonight: *Andrew Davis conducts* BBCSO and Chorus in works by Turnage, Tippett and Walton, with piano soloist Peter Donohoe. Tonight (QEH): Hermann Prey, accompanied *by James Levine, sings Schubert.* Tomorrow: Richard Hickox conducts LPO in Beethoven and Elgar, with piano soloist Lars Vogt. Sat: Levine conducts Philharmonia Orchestra and Chorus *in Berlioz's La* Damnation de Faust, with Anne-Sofie von Otter, Gary Lakes and José van Dam. Mon: Nikolai Demidenko plays Tchaikovsky's First Piano Concerto. Tues: Gennadi Rozhdestvensky conducts RPO *in Dvorak and Tchaikovsky, with* soprano Joan Rodgers. Wed: Andrew Davis conducts BBCSO and Chorus in new Turnage work, plus Vaughan Williams' Sea Symphony, with Thomas Hampson and Amanda Roocroft. Next Thurs: JE Gardiner *conducts* Elgar and Holst (071-928 8800)

Barbican Tonight: Carlo Rizzi conducts LSO in works by Mozart, Haydn and Schubert, with piano soloist *Lilya Zilberstein*. *Tomorrow:* Charles Dutoit *conducts* Orchestre National de France in Ravel, Roussel and Debussy, with soprano Felicity Lott. Sat: Ivor Bolton conducts New Queen's Hall Orchestra in Rakhmaninov, with piano soloist *Cecile Ousset. Sun afternoon:* Alexander Dmitriev conducts Stavanger Symphony Orchestra in Grieg, Nielsen and Sibelius, with violin soloist Cho Liang Lin. Sun *evening: Richard Hickox conducts* LSO and Chorus in Prokofiev and Holst, with violin soloist Gil Shaham. Mon: Andras Schiff directs ECO in Bach, Haydn and Mozart. Wed: Michael Nyman Band (071-638 8891)

■ MADRID

Auditorio Nacional de Musica *Tonight: Manuel Cid, accompanied* by Miguel Zanetti, sings Schubert's Winterreise. Tomorrow, Sat, Sun: Sergiu Commissiona conducts Spanish National Orchestra in works *by Rimsky-Korsakov, Rakhmaninov* and Tchaikovsky. Tues: Mark Foster conducts Queen Sofia Chamber Orchestra in Britten, Mahler and others, with soprano Maria Jose Montiel (01-337 0100)

Teatro Lirico La Zarzuela Sun: *first night* of John Cox's Covent Garden production of Yevgeny Onegin, conducted by Arturo Tamayo, with cast led by Carlos Alvarez, Karita Mattila and Kaludi Kaludov. *Repeated* Feb 22, 25, 27, March 1 (01-429 8225)

■ MILAN

Teatro alla Scala Tonight, Sat: *Nureyev production of Sleeping* Beauty. Tomorrow, Sun, next Tues, Thurs, Sat. Sun: Gianandrea Gavazzeni conducts Nicholas Joel's production of Puccini's La Rondine, with cast headed by Denia Gavazzeni Mazzola and Pietro Ballo (02-7200 3744)

■ ROME

CONCERTS

Teatro Olimpico *Tonight: Uto Ughi*, accompanied by Bruno Canino, plays violin sonatas by Mozart, Beethoven and Prokofiev. Next Thurs: Mantua Chamber Orchestra (06-320 1752)

Gonfalone *Tonight: I Musici play* works by Rossini, Paganini, Respighi and Rota. Next Thurs: Kodaly Quartet (06-687 5952)

Universita La Sapienza Sat: André Watts *piano recital (06-361 0051)*

Teatro Il Sistina Sun morning: Gary Karr double bass recital (06-5734 4664)

Teatro Valle Sun, Mon, Tues: Jeffrey Tate conducts Orchestra dell'Accademia di Santa Cecilia in *works by* Elgar and Strauss, with cello soloist Truls Mork (06-678 0742/06-6880 3794)

OPERA

This month's repertory at Teatro dell'Opera is devoted to Manon *Lescaut and Lucia di Lammermoor*, both staged by Gian Carlo Menotti. The Puccini, with Elena Filipova in the title role, runs till March 5. The Donizetti opens on Feb 26, with a cast headed by Mariella Devia and Vincenzo La Scola. Programme *subject to cancellation or change* at short notice (06-481 7003)

■ VENICE

Teatro La Fenice Tonight: Frederic Chaslin conducts final performance *of John Schlesinger's Covent* Garden production of Les Contes d'Hoffmann, with Giuseppe Sabbatini in title role. Sun, next Tues: Yoram David conducts Orchestra and Chorus of *La Fenice* in Schoenberg's Gurrelieder, with *Janis Martin*, Waltraud Meier, Siegmund Nimsgern and Frank Hoffmann (041-521 0161)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chi*cago, Washington*.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

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Heady brew of tycoons and tradition

BOOK REVIEW

THE BRITISH BREWING INDUSTRY 1830-1980
By T.R. Gourvish and R.G. Wilson
Cambridge University Press, £50, 690 pages

The UK's brewing industry, beers and pubs are firmly established elements of the national culture. They have survived – as this sweep through 150 years of history shows – persistently high taxation, frequent ham-fisted government intervention, periodic bouts of temperance, and constantly shifting consumer demands.

They have endured recession, uncertainty and upheaval – not least in the past five years – and, by and large, have done so profitably.

In the process, the industry has changed substantially, and at an ever-increasing pace. But its basic importance in the social and economic life of the country remains unaltered.

So do its problems. Complaints about the price of beer, brewers' profits and control of pubs stimulated government action in 1830, just as it did with the Monopolies and Mergers Commission report on the industry in 1989.

In 1830, Wellington's Tory government courted popularity by repealing the duty on beer and allowing any ratepayer prepared to pay a 2 guinea licence fee to brew and sell beer. More than 24,000 beer houses were opened within six months. Eight years later, nearly 46,000 had been added to the 51,000 previously licensed premises.

The beer houses were a fertile source for many an anti-drink sermon over the next 40 years, but their proliferation did little to increase competition. Commercial brewers were soon supplying them and later took over almost any house they wanted.

There is little evidence in this dense book to suggest government intervention has ever had any significant, lasting effect on the industry. Licensing laws and duty imposts did create conflict and uncertainty from time to time. The Licensing Bill of 1907, introduced by a "teetotal-ridden" Liberal government, caused uproar. Investment in breweries was cancelled and dividend payments suspended. Sir Gilbert Greenall, the Lancashire brewer, resigned as master of the Belvoir hunt, saying "if [the bill] became law, he could not continue the heavy expense of his office".

But social and market forces have been more influential in shaping the industry, as the authors' meticulous research and analysis confirms. It was not the government's creation of beer houses that fuelled the rapid growth in consumption and commercial brewing between 1830 and 1880. Instead, it was rising real wages, increasing urbanisation and lack of leisure alternatives.

Those were the glory years of the industry, when brewing was the occupation of gentlemen and, the authors note, "no other business venture, save perhaps banking, provided a surer route to a fortune". Brewing, it was estimated, made 33 millionaires and 50 half-millionaires, many of their names as familiar now as they were a century ago: Guinness, Bass, Courage, McEwan, Younger, Charrington, Watney, Worthington and Whitbread.

The death knell of many of the family partnerships that dominated Victorian brewing was sounded in 1886 with the public flotation of Guinness. The £6m share issue attracted £130m worth of applications.

Though a number of brewers determinedly held on to their independence into the 20th century – and some, like the Brain, Pope and Young families still do – the Guinness flotation pointed the way for others to convert assets to cash and to raise more funds to enlarge their pub estates.

A scramble among brewers to buy pubs also helped to restructure the industry. The value of Whitbread's properties, estimated at £26,000 in 1886, had risen to £2m by 1907. Many smaller brewers could not keep pace and, in the difficult trading years to 1914, fell to bigger, better-managed rivals.

The number of brewers halved to 1,100 between 1881 and 1914. The quest for economies of scale in a static or declining market reduced numbers to 428 by 1940. Then, most remaining vestiges of the brewers' old clubby world were shaken out in the merger mania of the late 1950s and 1960s, with the rise of the corporate economy.

There were many reasons for the spate of nearly 200 mergers, which reduced the industry to the six or seven dominant national brewers and a few regional operations. But the authors give due recognition to the impact of two outsiders: Charles Clore of Sears, who coveted the brewers' under-utilised properties; and E.P. Taylor, the brash Canadian brewer, who, in pursuit of a market base for his Carling Black Label lager, drove around the UK "bursting in upon startled [brewery] directors ... with only the slimmest of introductions, suggesting mergers with the eloquence of a carbon paper salesman".

Among the most potent influences on the industry identified in the book, however, are the generations of anonymous consumers. "It is the customer who ultimately decides," said Thomas Buxton, the London porter brewer, in 1811. And what awkward customers they have proved to be.

Their tastes changed frequently: from porter to mild ale; then to the light, sparkling bitters which for a time made Burton-upon-Trent the brewing capital of the nation; to keg bitters and lager; and then back to real ales.

Beer drinkers have also resisted threats to nationalise pubs and attempts to turn them into uniform chains. They stood firm against reformers who tried to "improve" pubs and drinking habits by abolishing bars and introducing waiter service – until a Royal Commission, no less, was forced to concede that "perpendicular drinking is an ingrained national custom".

Such defiance of the prescriptions of economists, accountants and social reformers may be the reason why beer drinking remains such a feature of the British way of life.

Philip Rawstorne

ECONOMIC VIEWPOINT

Leaky safety net, shaky ladder

By Samuel Brittan

The UK tax increases which come into effect in 1994-95 are under fire for their possible effect on the pace of economic recovery. But whatever one thinks of their timing, their ultimate cause is the growth in public spending.

This growth is international. Total general government outlays among European countries have risen from 35 per cent of gross domestic product in 1970 to more than 50 per cent in the early 1990s, much larger than in the UK.

Pressures have arisen both from the numerator (public expenditure) and the denominator (GDP). The latter has been hit by the long-term international slowdown in growth. But there has been at least as much pressure from the numerator, which is mainly welfare expenditure. The influences have included expensive advances in medical technology and growing proportions in further education. On the social security side there have been improved benefits (although not very recently), demographic shifts and changed social attitudes to take-up. Indeed the line between being less inhibited about exercising citizen rights and scrounging on the state is notoriously difficult to draw.

One popular view is that the rise in welfare spending has been due to unemployment. This is not so, at least in the UK, if unemployment is conventionally defined – an important qualification. The biggest increases have been in expenditure on pensions, the sick, the disabled and families.

Another favourite culprit is the ageing of the population. Again this is much exaggerated. Look at the age-dependency ratio – the proportion of the population over 65 to those of working age. In the European Union this ratio did not change at all in the 1980s and is expected to rise by a couple of percentage points to 23.6 per cent in the course of the 1990s. The big increases are expected next century. By 2040 the EC dependency ratio is expected to be about 43 per cent.

These pressures will not really hit the UK until after 2010. A superficial case can be made that the welfare state is not a problem for Britain this decade. Looking ahead to 2000, the Department of Social Security has made a central assumption that benefits will rise by just over 2½ per cent a year – within a hair's breadth of the government's projection for economic growth.

A much more immediate threat than the projected ageing of the population later in the 21st century is the fall already taking place in the proportion of people, and especially men, still at work in the 55-64 age range. It has been stark enough in the UK but even more pronounced in many other countries. Workers in that age group are being nudged into early retirement during periods of recession, never to return to work during the upturn.

David Willets, who has drawn attention to this and many other problems in a Social Market Foundation booklet, *The Age of Entitlement*, expects the proportion at work in this age group to fall below 60 per cent. The problem is aggravated by the trend towards starting work later under the name of education and training. Within the space of two decades, says Willetts, the normal span of a man's working life will have dropped by nearly a third.

Survey evidence suggests that most of those concerned do not regard themselves as either retired or conventionally unemployed. The problem has been aggravated by the convention that workers should retire at top pay rates and the provision in so many occupational schemes for pensions to be based on the last few years of working life. This makes workers themselves reluctant to stay in their posts when they may be earning somewhat less than at their peak. For employers, early retirement or voluntary redundancy seems a painless way of dealing with overmanning and reducing their average salary bill. But in both human and economic terms it is a colossal waste: and the increase in the proportion of women at work is but a mitigating factor.

In an otherwise illuminating Rowntree Foundation study, *The Future of the Welfare State*, John Hills plays down the expenditure pressures. He looks at the prospective ageing of the population in the next century, the maturing of the much-reduced state earnings-related pension scheme (Serps), and the switch, advocated by Labour, to restoring the link between benefit levels and incomes, and not just prices. If all these things were done, Hills argues that the pressure on public finances would still only rise by 5 percentage points of GDP by 2040.

Premature retirement

	Activity rates* (%)					Retirement age	
	50-54	55-59	60-64	65-69	70+	Actual	Statutory
Belgium	53.5	32.5	11.2	2.2	0.5	59.3	65/60
Denmark	85.6	74.4	39.3	17.4	3.0	62.7	67
France	74.5	50.4	14.3	3.8	1.0	59.6	60
Germany	75.7	61.4	22.7	5.6	1.8	61.0	65
Greece	62.0	49.7	32.7	15.1	4.2	63.0	65/60
Ireland	59.3	51.2	34.0	15.3	6.2	63.7	66
Italy	59.5	42.8	21.8	7.9	2.5	61.2	65
Luxembourg	58.7	40.4	16.2	3.5	0.0	60.1	65
Netherlands	61.4	44.8	15.0	5.5	2.7	60.4	66
Portugal	66.8	55.9	38.2	22.3	7.6	63.9	65/62
Spain	57.8	49.0	30.3	5.4	1.0	62.3	65
UK	78.7	68.0	38.0	10.8	3.0	62.5	65/60
EC average	69.1	53.4	25.1	7.6	2.2	61.3	65

* Proportion of age groups either in employment or registered unemployed

Source: The Financing of Pensions in Europe: Challenges and Opportunities. P.J.Besseling and R.F Zeeuw, CEPS Research Report No. 14, Brussels 1993

More worrying than ageing in the next century is premature retirement now

This argument has become much less convincing on its own terms since the outcry over the plans in the Lamont and Clarke Budgets to take an extra 3 percentage points of household incomes in tax over 1994-95. Hills argues that voters will not feel the pain of his 5 percentage-point increment if it is imposed in small annual steps. This is specious. He might equally argue that it would not matter if the state taxed away *all* original income so long as the 100 per cent point was reached in very gradual steps.

The welfare state was once described by Winston Churchill as a ladder and a safety net. The ladder represented opportunity and the safety net security. Now, in too many countries, the safety net looks ripped and the ladder shaky. As for the leakages, you only have to take a walk in the great cities of Europe and North America. While some of the homeless and the hopeless represent problems of drug addiction or mental disturbance not easily cured by overall financial action, there are plenty of signs of benefits of a minimum subsistence kind not getting through to those who obviously need them. The British government cut benefits for the under-25s in order to discourage them from leaving home without proper job or training prospects. Many still leave home for understandable reasons and live on the margins of society.

The shakiness of the ladder has been much discussed in the shape of the unemployment and poverty traps. Many of the aims of welfare state reformers get in each other's way. If governments try to make benefits more selective this means that there will be a high rate of cut-off and the gain from taking a job or moving to a better one will be exiguous. If, on the other hand, governments concentrate on reducing the high 'poverty tax' rates at the bottom of the income scale, then much of the benefit will spill over to those who do not need it.

The balance to be struck will vary from one benefit to another. In the UK high priority should be given to extending Family Benefit – now available to low-earning families with children – to those without children. This would on paper mean that it was always worthwhile to take a job. But in practice it will also be necessary to reduce the withdrawal rate for Income Support from its present anachronistic 100 per cent.

When it comes to pensioners, the balance of argument is overwhelmingly on the side of selectivity, as the careful balancing of different incentive effects no longer applies. As Willetts remarks, several hundred million pounds to improve the Income Support that tops up the pensions for the minority of the elderly who need it will do far more good than billions spent in a wasteful, across-the-board increase in the basic pension rate. Yet Labour still persists in this primitive error. John Major himself has made a similar error in relation to Child Benefit, which is a wasteful form of churning between families. The sums would be much better used in improving income-related benefits and increasing their take-up.

Different benefits and systems of payment have their embattled supporters. Instead, we should concentrate on what is transferred to whom and on what terms. Then at least we will be posing the right questions, even if there are no uniquely right answers to find.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Share options not incentive to perform

From Mr P.F. Norris.

Sir, Monday's articles on the subject of executives' share options provide a fascinating collection of political point-scoring, opinions and views, but do not address the essential point.

Interestingly, Richard Gourlay commented, in relation to the electricity company executives who stand to make significant option gains, that in all cases the share prices have more than doubled and profits have sharply increased ("Brown says share options cost £100m in lost tax"). So shareholders, far from being victims of share options, have also done extremely well!

Only Anne Simpson, of Pensions and Investment Research Consultants, comes close to the real issue in Lucy Kellaway's article ("A fairer slice of the pie"), by arguing – rightly – that share options are a poor means of motivation. Executives' pay should encourage managers to improve the performance of their businesses. Pay for performance is, clearly, the right approach; relying on share options to provide the link is not.

Attaching performance targets to the exercise of options ignores the inescapable truth that, in any event, the option gain is dependent on the share price on the day of exercise. Options are a route into the equity, not an incentive to perform.

Let's get away from focusing on the amount of executives' pay and concentrate on the way they are paid. If the methodology represents a good deal between management and shareholders – go for it.

P.F. Norris,
director, MM&K Remuneration,
1 Bengal Court, Birchin Lane,
London EC3V 9DD

Development of Crest

From Mr J.R.E. Footman.

Sir, Your report, "Bank says it should run share settlement system" (February 15), suggests that the Bank of England wants to own and control the Crest system for the first few years of operation.

The discussion document issued by the Crest project team on Tuesday makes it clear that the Bank wants ownership of Crest to be in the private sector, and that the private sector owners would themselves appoint an operator to run the system on their behalf from the outset. The Bank would be ready to build the system, but only provided there were satisfactory commitments from future owners to finance this process and to take on full responsibility for the operation of Crest once building was completed.

The Bank of England will be looking to future owners to sign heads of agreement before May 3, and the new ownership structure would be implemented at an early stage during the building of Crest.

J.R.E. Footman,
head of the information division,
Bank of England,
London EC2R 8AH

Irregular ways to say goodbye

From Mr Desmond High.

Sir, Mr Brian Moore's letter ("Overpriced auditing", February 15) brings to mind one of those irregular verbs much beloved of Bernard in *Yes Minister*, namely: I resign, you are sacked, he leaves by mutual agreement with a seven-figure pay-off.

Desmond High,
Chantrey Velacott,
accountants,
Russell Square House,
10-12 Russell Square,
London WC1

Power benefits delivered

From Mr John Baker.

Sir, Your leader, "Littlechild's power gamble" (February 14), gives the reader a misleading and partial analysis of the power generation industry.

It is misleading because, by repeated reference to the market power and price-fixing ability of the duopoly generators, it implies their guilt can be taken for granted. Yet in his latest report, as in all his earlier ones, Professor Stephen Littlechild, the electricity regulator, confirms he has found no evidence of any abuse by National Power with regard to its behaviour in the market, pricing or profitability.

The article is partial because, while critical of the power generation industry's structure, it omits to recognise any of the benefits it has delivered. For example, electricity pool prices are still below the level predicted by government at the time of privatisation, and competition in generation is increasing faster than anticipated – hence the reduction in our market share in three years from 47 to 35 per cent.

Moreover, National Power's wholesale charge for the vast majority of consumers is significantly lower in real terms than before privatisation – 16 per cent for the typical industrial user – and the very largest users would also have enjoyed price reductions had they not lost government subsidies in 1991. Even without them, they are paying on average no more in real terms.

Add to that an increase of more than 50 per cent in our productivity, and capital investment, largely on environmental clean-up measures, exceeding our pre-tax profits over the last three years, and I believe that this is firm evidence of the success of privatisation.

John Baker,
chief executive,
National Power,
85 Queen Victoria Street,
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Basis of contacts between Sir Sonny Ramphal and BCCI

From Shridath Ramphal.

Sir, I write to refute the innuendos contained in your article, including the headline, about me concerning arrangements with Bank of Credit and Commerce International initiated long before its closure ("Sir Sonny had special loan", February 16).

As chairman of the International Jury for the Third World Prize, my contacts with the bank were essentially with its president in his capacity as chairman of the board of trustees of the Third World Foundation. They were, therefore, mainly concerned with the bank's philanthropic work, which included support not only for the foundation and the Carter Centre but such Commonwealth-related causes as the Commonwealth Cambridge Trust.

I explained fully to your correspondent the significance of the new foundation which I was expected to lead after leaving the Commonwealth Secretariat. It was to be devoted to issues of development, security and environment in a north/south context.

I considered it extremely important that such a global institution should come into being; and was ready to devote my time after leaving my Commonwealth post to bringing it to fulfilment. The contractual arrangements discussed with the bank were entirely in that context and of course made full provision for assured repayment. At the time, it was reasonable to assume that BCCI's banking activities were being properly regulated by the Bank of England.

Within weeks of the closure of the bank, it was my legal advisers who brought all these matters to the attention of the then provisional liquidators. In the result, my own claims against the bank and liabilities to it were the subject of an overall settlement, negotiated through legal advisers and by due process more than a year ago.

Your correspondent has also referred to a Commonwealth Secretariat Cambridge symposium in 1989. The then director of the legal division of the Commonwealth Secretariat, Mr Jeremy Pope, has specifically refuted the suggestion that I or anyone in my office had any awareness of the matters relating to that symposium and confirmed that the discussion itself did take place.

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Thursday February 17 1994

Markets, yes cartels, no

The European Commission's belated crackdown on the steel cartel is rather curious. The Commission, after all, has been a prime orchestrator of steel cartels in the past. Nevertheless, if the crackdown is a genuine sign that the cartel days are over, it is welcome.

The fear, though, is that the Commission's real motive is to undermine the moral position of Europe's private steelmakers who have been highly critical of the Commission's role in sanctioning Ecu7bn in state aid to their inefficient public-sector rivals. Though the non-aided steel groups are not blameless, that does not alter in any way the unfairness of last December's subsidy package. Nor should it be used to blackmail the non-aided companies to take part in the Commission's overall plan for restructuring the industry.

Under this, the Commission wants non-aided groups to cut 19m-25m tonnes of capacity to help bring demand and supply into balance. It is prepared to finance a quasi-cartel to achieve this. But the private steelmakers say they are not prepared to cut so much capacity, given that their aided rivals have cut only 5m tonnes. While they are right to feel aggrieved, it is pointless to labour the point. December's deal is done and cannot be unravelled.

The practical question is whether the Commission is sensible to press ahead with its restructuring plan. The answer is probably no. Although the Commission cannot reasonably remove its offer to sanction a capacity-reducing cartel now it has been made, it should not be twisting arms to get companies to take part. The Commission would do better to leave restructuring to the market.

Painful process

Such a process would be painful. Without the prospect of orchestrated plant closures, prices would fall. Some companies would be driven into bankruptcy. Even that would not necessarily lead to capacity cuts in the short run as, in many cases, it would be more profitable to write down a company's debts and continue to operate its plants. This has already happened with Germany's Saarstahl and Klöckner-Werke.

One could hardly call such a process fair. Private investors would suffer because of hand-outs to state-owned groups. But it would have advantages. The rest of European industry would enjoy enhanced competitiveness from lower steel prices. Some jobs might be saved because lower prices could boost demand for steel. Moreover, when the time for closures came, there would be a reasonable prospect that the most inefficient plants would go first maybe even those owned by state-aided companies.

State aid

Such a course of action could run into two dangers. First, steel companies might be so badly hurt that they would clamour for more state aid. If the companies that have already received subsidies from their governments principally Italy's Ilva, Germany's Ekostahl and Spain's CSI asked for more, the Commission's answer would be fairly clear: no second helpings.

But if other groups managed to persuade their governments to subsidise them, the Commission would have a hard job saying no. After all, it would scarcely be fair to sanction subsidies to inefficient steelmakers and then deny them to more efficient rivals which were being driven out of business. The Commission would probably have to apply the same formula of aid for capacity cuts that it used last December. This prospect is not appealing. It only goes to show the mess created once precedents on state aid are set.

The second danger is that market conditions could get so bad that the Commission felt forced to declare a "manifest crisis" under the Treaty of Paris. German producers are already calling for this provision, under which companies would receive quotas for each market segment, to be invoked. The snag with such a cartel is not only that it would harm the rest of industry by pushing prices higher. The evidence of the 1980s, when a manifest crisis was last invoked, is that little restructuring would occur and trouble would be stored up for the future.

Europe's steel industry is in such a mess that there are no easy solutions. But some are worse than others. The Commission should rely less on cartels and more on markets.

Reading the tea leaves

Mr Kenneth Clarke wanted to be chancellor of the exchequer. Now he is learning how difficult the job can be. It was relatively easy to know what to do after sterling had been pushed out of the exchange rate mechanism in September 1992: interest rates had to be cut and the budget had to be tightened. Today, policy judgment is more finely balanced, with the tax burden about to increase sharply, the base rate of interest down to 5¼ per cent and the economy enjoying a modest recovery and falling inflation.

Inflation continues to look more than satisfactory. The retail price index, less mortgage interest payments, is up only 2.8 per cent over the 12 months to January 1994, after a 0.4 per cent fall in the latest month. This was a substantially better outcome than generally expected and came despite the budget increases in excise duties. One explanation was heavy discounting in the January sales. But producer output prices – excluding both the volatile food category and tax-distorted beverages, tobacco and petroleum – rose not at all in January and by only 2.6 per cent over the 12 months to January. This was a remarkable performance following a substantial devaluation.

Good performance

Meanwhile, underlying annual inflation of earnings has been running at 3 per cent for four months. This ought to be consistent with price inflation of less than 2 per cent, which would be within the government's inflation target for the end of this parliament. The question is whether pay inflation can stay so low. Worries include a small rise in pay settlements this year and the probably transient effects of the government's tough pay policies for the public sector. Nevertheless, inflation performance is good. So it must remain, since it is important that a target is actually met, for once.

If performance on inflation looks good, that on the recovery is decidedly mixed. The volume of retail sales – up 3.5 per cent in the year to January 1994 – has been growing more rapidly than output of manufacturing, up only 2.2 per cent in the year to December 1993. Meanwhile, the volume of exports, *excluding* oil and erratics, is estimated to have fallen by ½ per cent between the three months ending November 1992 and the same period of 1993, although the volume of comparable imports was up 4½ per cent. All too typically, the unit values of these exports rose by 11 per cent.

This, then, has all the appearance of an unbalanced consumer-led recovery, with export prices pushed up to take advantage of devaluation and weak performance of both exports and manufacturing, despite the devaluation.

Tail off

Prospects are made worse by the high increases in earnings within manufacturing industry, running at 4¼ per cent. The annual rate of productivity increase in manufacturing has also halved since last July. As a result, unit costs in manufacturing, which fell 1.7 per cent in the year to the three months ending in July 1993, rose by 0.8 per cent in the year to the three months ending in December.

Exports may still improve when the recession in continental Europe comes to an end. Meanwhile, the importance of price cutting for sustaining the growth of retail sales demonstrates that domestic consumption is hardly running away. The growth of consumption may also tail off when the reality of April's tax increases dawns on the population. If so, the pattern of demand would begin to look far better balanced.

Demand may also prove disappointing. It would be wrong to get too excited over one month's small jump in unemployment, particularly after four months of decline. But account does need to be taken of the shift from full to part-time employment, which is hidden in the aggregate figures. The overall impression is that the economy is not growing fast enough to tighten overall capacity by very much. If so, unemployment will continue to remain higher than is necessary to contain inflation.

On balance, the evidence presented by the *veritable* avalanche of statistics of the last few days suggests that further loosening of monetary policy may well be required. Lower interest rates are likely and, as happened earlier in the US, should prove consistent with still lower inflation.

Damian Fraser examines the political and economic repercussions of Mexico's peasant uprising

The poor make their presence felt

The seizure by peasant guerrillas of half a dozen *Mexican towns in the* southern state of Chiapas on New Year's Day has shaken the government of President Carlos Salinas more than any other event in its five-year rule.

Since January 1 President Salinas has had to reshuffle his cabinet, fire a state governor, bow to demands for potentially far-reaching political reforms, and shift the focus of economic policy from conquering inflation to boosting growth – all as a result of the revolt.

The Institutional Revolutionary Party's 65-year grip on power looks less secure now than at any point since Mr Salinas took office in December 1988. Mr Luis Donaldo Colosio, the PRI's presidential candidate to succeed Mr Salinas, faces an opposition rejuvenated by the rebellion, and possible division in *his own party. Elections* are scheduled for August 21 and Mr Salinas cannot stand for a second term under Mexico's constitution.

That a group of a few thousand poorly equipped guerrillas could wreak so much political damage is a testimony to previous discontent with government policy. The rebels, who call themselves the Zapatista National Liberation Army, have elicited widespread sympathy with their calls for democratic change, better treatment of the minority Indian population, and criticisms of pro-market economic reforms.

"The Zapatistas are only saying what many Mexicans want," says Sergio Aguayo, a political science professor at the Colegio de Mexico, a leading research institute. "That is why they have had such a strong impact." According to a poll in the magazine Este Pais, 61 per cent of Mexicans sympathise with the Zapatistas.

The army put down the Zapatista insurrection within a few days, but the government, pushed on the defensive, felt compelled to drop its military offensive and offer an amnesty and a ceasefire. Yesterday, *the Zapatistas were set to release* Mr Absalón Castellanos, former governor of Chiapas, who had been held captive since the New Year. This clears the way for talks between the rebels and Mr Manuel Camacho, the government peace-broker in the region. A government *official said* talks were likely to start this weekend.

The government is likely to offer the rebels land, more money for schools, roads, and utilities, and to replace some local politicians with those acceptable to the Zapatistas. It is unclear whether such concessions will persuade the rebels, who are still armed, to rejoin civil society, but they may undercut their popular support.

The government's conciliatory approach has helped restore the confidence of foreign and domestic investors *in the economy, which* had taken a knock after the optimism generated by approval of the North American Free Trade Agreement last November. The stock market has risen about 7 per cent this year, and short-term interest rates fell to a record low of 9.15 per *cent yesterday*.

But even if a rapprochement is reached with the Zapatistas, the ramifications of rebellion are almost certain to remain the central issue of this year's presidential election. The uprising has shifted the political debate to the extreme poverty in which about a fifth of the country lives, and to the authoritarian rule of the PRI in many parts of the country.

Such issues are the main campaign themes of Mr Cuauhtémoc Cárdenas, the candidate of the leftist Party of Democratic Revolution. He has successfully distanced himself from the violent methods of the Zapatistas, but appears to be capitalising on the dissent highlighted by the rebels. Opinion polls indicate his approval rating has risen to about 20 per cent.

Mr Cárdenas' rise has put Mr Colosio, the hand-picked successor to Mr Salinas, on the defensive. Mr Colosio has the hard task of convincing Mexicans that the uprising does not discredit the policies his party has been following for the past decade, in particular tight government spending and the imposi*tion of high real interest rates that* have lowered inflation but squeezed growth.

In an effort to boost Mr Colosio's campaign and appease public opinion, President Salinas decided last month that the government would accelerate planned spending this year, and shift budget priorities to anti-poverty programmes. Last week Mr Salinas announced a $107m subsidy to coffee producers who are angry at low international prices.

If Mr Colosio succeeds Mr Salinas, as is still likely despite the appointment of his rival Mr Camacho as peacemaker in Chiapas, aides say he will concentrate on eradicating poverty and reducing differences in income within the country; devolve federal responsibilities to the states;

*and give more powers to the Con*gress and judiciary, thus reducing the president's influence. Mr Colosio was drawing up such a programme last year after he was nominated but the prospect of a subtle change in policy with President Salinas has risen since the uprising.

Mr Colosio has been influenced by the downturn. Government figures are expected to show that the economy grew by under 1 per cent last year, less than the increase in population. Unemployment has risen in cities, and rural areas such as Chiapas have seen a sharp drop in the prices of agricultural products.

Low growth has meant that many Mexicans have yet to benefit significantly from economic initiatives that brought inflation down from *157 per cent annually in 1987* to an annual 8 per cent last year, and privatised hundreds of state-owned businesses. While average wages have risen modestly in the Salinas presidency, they are still lower in real terms than at the beginning of the 1980s.

Over the past decade the large gap between the rich and poor has widened. The richest 20 per cent of the population received 54.2 per cent of national income in 1992, against 48.4 per cent in 1984. The income of the poorest 20 per cent fell from 5 per cent in 1984 to 4.3 per cent of national income in 1992.

However, both the present government and aides to Mr Colosio insist that broad commitment to pro-market measures such as deregulation, privatisation and economic stability will continue. Mr Santiago Oñate, an adviser to Mr Colosio, says: "Mr Colosio believes in the continuity of what worked under President Salinas."

The government's freedom of economic manoeuvre is partly constrained by membership of Nafta, which Mexico joined on January 1. The accord removes tariff and non-tariff barriers between the US, Canada and Mexico over 15 years and thus puts pressure on the Mexican government to follow pro-business policies that encourage companies to compete.

So while the government has lit*tle* room to act in the economic arena, it has decided to react to public pressure for political change. There are widespread calls, encapsulated by the Zapatistas, for the overhaul of an electoral system that favours the PRI over the opposition. The PRI decides who will sit on the electoral tribunals which rule on the legitimacy of elections. It also outspends the opposition through its privileged access to state and private sector resources, and enjoys favourable coverage on the country's two private television networks.

Backed by all the main opposition parties, the government plans to allow the opposition to veto members of the electoral tribunals, require the private television companies to give *equal time to the opposition*, and reduce statutory limits on campaign spending per party from $215m to $42m for the whole election, as well as to outlaw the use of state funds in campaigns.

These changes followed the replacement of Mr Patrocinio González Garrido, *the hard-line interior* ministry, with Mr Jorge Carpizo, the respected former attorney-general in January. Mr Carpizo, who assumes overall responsibility for the management of the elections, said when appointed that he was not a member of the PRI, and staked his reputation on ensuring the political reform agreement holds firm.

Mr Camacho says electoral reform is a prerequisite for solving the conflict in Chiapas, since it meets rebel demands for greater democracy. Still, the details have to be negotiated, and Mr Carpizo's commitment notwithstanding, talks between the political parties could yet break down.

Mr Cardenas' party warns that if political reforms are not undertaken and this August's election is not free then much of the country may be convulsed by upheaval. "If the government doesn't keep to the reforms, things will get much worse," says Mr Ricardo Pascoe, a close aide to Mr Cardenas. "We will go back on the warpath."

Capitalist tools for Chinese workers

PERSONAL VIEW

China's embrace of "market-based so*cialism*" requires that its policymakers turn to a new mix of policy tools for managing their economy. With more than 13 per cent growth last year, mismanagement could lead to economic overheating and a "hard landing" similar to that seen in 1989. As this economic dynamo gropes towards "socialism with Chinese characteristics", its reformers should search abroad for adaptable financing techniques to ease the way.

For example, to rein in 20 per cent urban inflation, Beijing is again requiring that workers buy government bonds. The accompanying discontent could be softened by allowing workers to swap the bonds for shares in their employer. This would remove the need to pay inflation-fuelling interest payments and transform the forced savings into an investment whose value could be influenced by the workers' efforts. France's recent sale of "Balladur bonds" offers a precedent, where purchasers were allowed to exchange this public debt for shares *in Banque Nationale de Paris* or any other French privatisation.

Such worker-oriented swaps could help motivate China's dispirited workforce – a key challenge facing both the old and the new socialism. Certainly, worker ownership should cause no ideological nose bleed, even among the most conservative members of the state council. Employees of state-owned enterprises could also be allowed to exchange employer-held Beijing bonds for a stake both in their employer and its suppliers and distributors. This would help to foster a commercial commonality of interest similar to Japan's Keiretsu-based "communitarian capitalism".

Likewise, where China's banks hold poor-performing loans, that debt could be swapped for equity – akin to Germany's "stake-holder capitalism" where lenders often hold client shares.

With proper training, China's bureaucratic bankers could be transformed into a positive force for economic reform. As bank-monitored companies grow stronger, they could again turn to loans – to repurchase these shares from workers *via an employee stock owner*ship plan (Esop), a financing technique utilised in more than 10,000 US and UK corporations. Esops could also provide a market for foreign investors' shares, offering a means for transforming foreign capital into politically palatable worker

With proper training, China's bankers could be transformed into a positive force for economic reform

ownership – while also enhancing China's appeal to those investors worried about a ready exit for their funds.

Similar financial hybrids also hold promise. For example, due to a propensity among Chinese to save, economic reformers live with the spectre of a potentially inflationary currency "overhang" (Chinese banks hold savings totalling some 15 months' wages for every worker).

The frustration of the Chinese at the lack of alternative investments *became apparent last year in Shen*zhen when a shortage of shares in a public offering led to a riot.

Also troubling for reformers' efforts is the tendency of state-run banks to funnel nationwide savings into urban locales, including speculative real estate, starving the rural sector of capital. Encouraging workers to invest in their employer is an obvious first step. As the next logical step, residents in certain communities could be allowed to buy shares in companies located in those communities. In addition to soaking up local savings, such mechanisms would also provide local companies with a needed, non-bank source of funds.

Such investment vehicles could mimic capital markets, but without the absentee capitalist aspect shunned by socialist ideologists. Also, granting locals access to mechanisms for investing savings locally can boost national savings and dampening inflation.

Financial engineering could help replace dwindling provincial tax revenues. For example, service-providers (electricity, telecommunications, etc) could allow consumers to *invest in bonds, with proceeds ear*marked to finance local services. Those bonds, in turn, could be swapped for shares paying in-kind dividends (such as telecommunication services). Farmers holding state-issued IOUs could be allowed to swap a portion of that debt for *shares in support services, such as* a fertiliser plant, collecting in-kind dividends similar to those paid by farmers' co-operatives worldwide.

China has an historic opportunity to design an extraordinary economy, combining prosperity with political stability. Importantly, reformers could ensure that China is owned largely by working Chinese. The challenges are immense. Yet with financial creativity and experimentation, China can tap the dynamism of market forces and remain true to its core principles.

Jeffrey R. Gates

The author is president of an international consulting firm with offices in Atlanta and Washington DC

OBSERVER

Naked ambition

■ Don't cry for John Major, Britain's unpopular leader. On a scale of one to 10, his party's sex scandals hardly get on the score sheet when compared with the brouhaha surrounding the first entry of Brazil's President Itamar Franco in Rio de Janeiro's recent carnival.

Franco's problems started when Lilian Ramos, an actress and Playboy model, managed to sneak into the president's box during the parade. The couple were obviously *taken with each other, since they* were soon exchanging glances, kisses and phone numbers.

Unfortunately for the president, a 63-year-old divorced father of two, several photographers had already spotted that Ramos was even more scantily clad than some other carnival-goers. "When I took my panties off I didn't know I was going to meet the president," admitted the publicity-hungry samba dancer.

Apparently unaware of the shocking photos which were about *to appear in the Brazilian papers*, the president phoned his new-found friend on Monday, only to find later that his calls had been taped in the presence of journalists – who make The Sun's newshounds look like angels ...

Carnival is a time when normal rules of *behaviour are broken* in Brazil. However, the Catholic church said that the spectacle of the country's head of state dallying with the dancer was doubly regrettable because it occurred on the eve of a national campaign to encourage family values.

Buck House

■ Late news flash from the pass-the-buck department. The Department of Trade and Industry has admitted that it underestimated the number of companies entering administration under UK insolvency law by more than half in the first six months of last year.

However, the DTI is spared any real embarrassment because such official figures are now released through the Association of British Chambers of Commerce. Indeed, when it owned up to getting its facts and figures wrong, it suggested that the real blame should not lie with itself or the ABCC, but Companies House. Once part of the DTI, Companies House is now a Next Steps agency and expected to take responsibility for itself.

How convenient.

Odd man out

■ How come John Major didn't include a doctor in his team for Moscow? Given that there has been so much speculation about the *health of Russia's President Yeltsin*,

it might have been helpful if the PM's quack was on hand, especially since Yeltsin is not going to have any more foreign visitors for several months to come.

In the good old communist days, foreign governments often seemed more interested in how long Russia's leaders would last physically rather than politically.

When Harold Wilson visited the Kremlin in the 1960s, he took along his personal physician with the sole aim of getting an arm's-length diagnosis of whether Andre Gromyko, Russia's foreign minister, was nearing the end of his innings.

Sadly, the only thing that Wilson's *doctor could conclude* was that there was something wrong with Gromyko's jaw.

Black-balled

■ Black mark or black tie? Economists, it seems, merit one and not the other.

Social highlights of the Gilt-Edged Market-Makers Association's spring season include a black tie dinner with the governor of the Bank of England and another with the chancellor of the exchequer.

"There will be one guest from each GEMM [gilt-edged market maker]; your representative should be a senior practitioner, not an economist, and the intention is to have an open discussion on matters affecting the gilt market," says Euan Harkness, Gemma's chairman, in his invitation to members.

Surely it is not the chancellor who is insisting on keeping the teenage scribblers out?

Roger and out

■ John Prescott, Labour's shadow employment secretary, has always been a bit special. When Observer was a ship's steward on the cross-Channel ferries in the 1960s, Prescott and his colleagues, criss-crossing the Atlantic serving gin and tonics on Cunard liners, were regarded with awe.

Those were the days before *seamen's strikes*, when Cunard's catering staff were reputed to chuck the washing-up overboard if it was piling up too quickly in the galley. No doubt Prescott never took such *short cuts, but he admits, in an* interview in yesterday's Daily Telegraph, that he was twice charged with mutiny.

Indeed, he claims that his mutinous activities led to a change in the regulations. "If you are caught with a woman passenger, you are no longer charged with broaching ship's cargo," boasts Prescott.

Unfortunately, Cunard does not agree with its ex-employee's version of events. "Not only do we not treat passengers as cargo, but only officers are allowed to mingle with passengers," says Cunard.

Back in your bunk, Prescott.

Political correction

■ Smythson, the Queen's Bond *Street stationers, has taken* Observer to task for suggesting that dropping the "man" from its Businessman's Organiser was done for reasons of political correctness. To prove that the firm has not completely bowed to the PC lobby, managing director Sarah Elton has sent round a copy of Smythson's wafer address book entitled Blondes, Brunettes and Redheads.

It would make an ideal thank you present for a man-about-town like Alan Clark, the ex-defence minister.

FINANCIAL TIMES
Thursday February 17 1994

Gen Rose seeks extra forces to help monitor Sarajevo withdrawal

West cool on UN troop request

By Judy Dempsey and David Owen in London and John Lloyd in Moscow

Western European governments yesterday shied away from a United Nations request to send more troops to the Bosnian capital of Sarajevo.

The uncertainty over plans to reinforce UN troops came as Russia hardened its opposition to Nato air strikes to enforce the withdrawal of Serbian positions around the city, and the collection of heavy artillery.

General Sir Michael Rose, the British UN commander based in Sarajevo, wants an immediate addition of 3,000 troops to help monitor the collection of weapons held by Bosnian Serb and Bosnian government forces, supervise their storage and demilitarise the city. More than 30,000 UN troops are based in the former Yugoslavia, the majority in UN-protected areas in Croatia.

The withdrawal and collection of all heavy artillery pieces must be completed by midnight on Sunday, otherwise the UN commanders on the ground can ask Nato to carry out air strikes on Bosnian Serb positions.

British and French officials were last night reluctant to commit any more troops, while Washington and London believed "several thousands of ground troops" would be required to act as peacekeepers once the city has been demilitarised. The US has no ground troops in the former Yugoslavia.

In London, British officials said Mr Douglas Hurd, the foreign secretary, had not yet decided whether to redeploy some of the 2,500 troops already based in Bosnia, or send additional forces. A Downing Street spokesman said last night that "nothing could be ruled out".

Mr Hurd told the BBC from Moscow: "There must be a fair division of responsibilities – we have carried out really more than our fair share."

In Paris, Mr Richard Duque, the French foreign ministry spokesman, said the government had no plans to bolster its forces. France, with the largest contingent, already has 6,000 troops in the former Yugoslavia, of which 2,000 are based in Sarajevo, about 2,000 in other parts of Bosnia, and the remainder in UN protectorates in Croatia. The Dutch government said its 2,400 troops were more than proportionate to the size of the Netherlands.

Military experts in London and Paris said any delay in responding to Gen Rose's request would be seen as "weakness" on the part of the west Europeans, adding that reinforcements could be quickly redeployed from Croatia. These would, however, have to be replaced in order to prevent Serb or Croat forces exploiting a vacuum.

"We have to maintain the momentum," an adviser to Nato said, adding that any large-scale demilitarisation of Sarajevo would require tens of thousands of troops.

In Moscow, Mr Sergei Lavrov, a deputy foreign minister, told parliament that the Nato ultimatum to the Serbs to withdraw artillery or face strikes was "illegitimate and contradictory to UN decisions". Mr Vitaly Churkin, deputy foreign minister, held talks yesterday with President Slobodan Milosevic of Serbia. Russia has said it will not redeploy any troops based in Croatia to Bosnia.

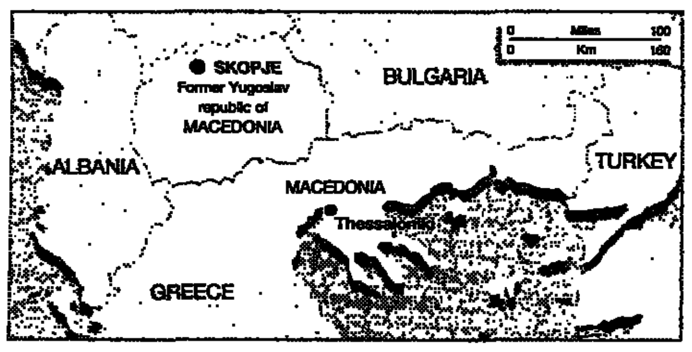
Mr Lavrov said Mr Yuri Vorontsov, the Russian ambassador to Nato, had been instructed to object to air strikes if the guns were not removed before the deadline.

Greece cuts Macedonian trade link

By Kerin Hope in Belgrade

Greece said yesterday it was freezing diplomatic ties with Macedonia and would no longer permit the former Yugoslav republic to import fuel and other goods through the northern Greek port of Thessaloniki.

Mr Andreas Papandreou, the Greek prime minister, made the announcement live on television before the start of a cabinet meeting, adding that "as words can be underestimated, Greece is forced to make its position clear with specific actions."



The move came in response to mounting domestic criticism of the Socialist government for failing to wring concessions out of Macedonia in the dispute over its name and use of an ancient Greek symbol, the Vergina star, on its flag.

The heavy-handed Greek action is likely to embarrass its European Union partners particularly since Greece currently holds the rotating presidency of the EU.

The Greek government was clearly put out when the US followed EU member states in granting official recognition to Macedonia last week, ignoring repeated Greek requests that the Macedonians should first be persuaded to change the flag.

The Greek decision to deny Macedonian companies access to Thessaloniki could have a serious impact on the Macedonian economy, already suffering from UN sanctions on neighbouring Serbia. Macedonia imports almost all its oil used for domestic and industrial consumption, by train and truck from a storage facility outside Thessaloniki, its closest outlet to the sea.

Mr Papandreou is under attack from his party's radical wing for not opposing more strongly the Nato ultimatum on air strikes against the Bosnian Serbs. Mr Carolos Papoulias, foreign minister, visited Belgrade earlier this week to reassure President Slobodan Milosevic that Greece does not intend to weaken its close relationship with Serbia.

In the Macedonian capital Skopje, the Macedonian foreign ministry said it had been informed that the Greek consulate there was being closed and its staff withdrawn. Mr Papandreou spoke of a decision to "suspend the activities of its consulate in Skopje", leaving the exact status of relations uncertain.

In order to dispel Greek claims that Macedonia's name implies a territorial claim on the Greek province of Macedonia, Skopje's president Kiro Gligorov has said he is willing to sign an agreement guaranteeing the border with Greece.

However, VMRO, the Macedonian nationalist party, has made clear it would block the two-thirds majority needed in parliament if the flag is to be changed.

Bundesbank issues debt warning

By Quentin Peel in Bonn

The indebtedness of the entire German public sector is likely to reach almost DM2,000bn ($1,155bn), or roughly 60 per cent of gross domestic product, by the end of this year, from 56 per cent last year, the Bundesbank warned yesterday.

The rise means public sector debt is "approaching by leaps and bounds" the critical point on the economic convergence criteria laid down in the Maastricht treaty, which sets a debt ceiling of 60 per cent of GDP for member states of the European Union seeking to create an economic and monetary union.

Germany is already outside the Maastricht criteria as far as the narrowly defined public sector deficit is concerned, with net borrowing at 3.4 per cent of GDP in 1993, according to the central bank's latest monthly report. The Maastricht criterion for public deficit is 3.0 per cent.

By the end of last year, public sector debt had reached DM1,510bn or 48.5 per cent of GDP, compared with DM1,345bn or 44.5 per cent at the end of 1992, the report says. If the outstanding debts of the German railways are included, as well as the liabilities of the Treuhand privatisation agency in east Germany, the public debt at the end of last year amounts to DM1.74bn, or 56 per cent of GDP. The railways debt burden falls on the central exchequer from last January 1, while the Treuhand's liabilities will be taken over from January 1 1995.

The Bundesbank's calculations confirm those of private sector economists, who have warned about the "mountain of debt" being accumulated by the German public sector, as a result of the costs of unification, compounded by the current sharp recession.

The latest analysis by the Dresdner Bank, for example, estimates that the debt burden will rise above DM2,000bn in the course of the year. It warns that without far more drastic cuts in public expenditure than the recent DM25bn savings package – it suggests at least DM70bn – it will be impossible even to stabilise the debt at that level.

In spite of its gloomy prognosis, the Bundesbank remains fairly complimentary about the efforts of public authorities to curb spending. It notes that if costs directly related to recession and unification are excluded, federal spending in 1993 rose only 2 per cent. It warns, however, that continuing rigorous savings measures must focus on spending cuts, and not tax rises.

EU fines big steelmakers

Continued from Page 1

publication of correspondence between cartel members – has undermined the argument of private steelmakers that last December's restructuring deal for the industry underwrites unfair competition from state-aided manufacturers.

Under the December deal, state-owned steelmakers in Spain, Germany and Italy received government subsidies worth Ecu6.8bn in return for capacity cuts of over 5m tonnes. Non-aided producers, however, are supposed to deliver capacity cuts of between 19m and 25m tonnes.

So far, according to Mr Martin Bangemann, the industry commissioner, they have delivered 13m tonnes of cuts, with 4m tonnes more promised.

THE LEX COLUMN

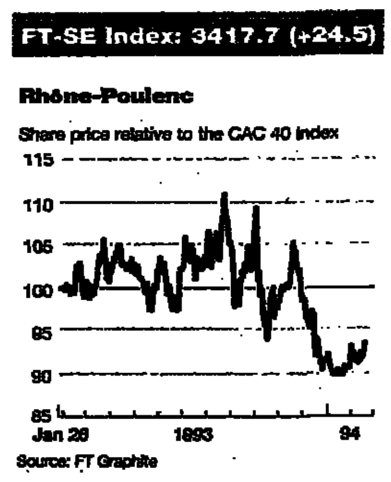
Nerves of steel

There must indeed be a connection between the European Commission's imposition of stiff fines on steel producers accused of infringing competition rules and its efforts to cajole them into cutting production. If its leaked intention to fine was a threat, it failed. The fines have no further use as bargaining chips since it will be up to the European Court to decide whether to rescind them once the companies appeal. But the companies have been so irritated that the chances of agreement on production cuts look even more remote.

In view of its outspoken criticism of December's feeble EU agreement on subsidies, some in the Commission must be quietly pleased at the coincidence which imposed on British Steel the largest fine. Yet its share price actually managed a marginal gain yesterday. Perhaps the Ecu32m fine simply looks insignificant against group net assets of £3.7bn. Profits should be spared a hit, at least until the appeal is decided. British Steel has no more production cuts of its own to offer. But it would be wasting shareholders' money if it paid for others to make cuts without first making absolutely sure that subsidised competitors could no longer step into the breach.

If that did ever happen, British Steel's low costs would almost certainly allow it vastly to increase its European market share. Its strong balance sheet means it can survive the subsidy wars better than other unaided producers. But that is no reason for the equity market to rejoice, because the costs will be high. The shares are mainly resilient for a reason that will ultimately make the problem worse. Production restraints and the prospect of economic recovery have buoyed product prices. The longer that continues the harder it will be to stop the subsidies – which probably also explains the Commission's extreme frustration.

FT-SE Index: 3417.7 (+24.5)



Source: FT Graphite

UK economy

When economic statistics are dribbled into the market day by day, the result is often sharp lurches in mood. When they seem to come all at once, it is more likely to be be bewilderment – unless like yesterday they mostly seem to point in the same general direction. The increase in unemployment may have been a blip, but both manufacturing employment and vacancies are down. Taken together with lacklustre retail sales and Tuesday's disappointing figures on industrial output, the picture emerges of an economy whose recovery has slowed since November's budget.

That need not be a signal for alarm but it does make another base rate cut more likely before April's tax increases start to bite. At least the inflation news is good on both the wholesale and retail price fronts. There are some signs that pay settlements are starting to creep up, but December's quickening in unit labour costs mostly reflects the fall in production during that month. The equity market's 54-point rally since Monday night reflects new hopes for lower interest rates. But the same data which are encouraging such optimistic thinking suggest earnings may be insufficient to support share prices if the cuts do not arrive.

Rhône-Poulenc

Rhône-Poulenc's predictions have proved erratic in the past and it therefore came as a relief that its 1993 results were only as dire as forecast at the time of privatisation. The company warned last year that the chemicals industry was experiencing its most difficult trading conditions since the second world war. The 36 per cent fall in net income bears out the point. But Rhône-Poulenc's appeal lay in its big exposure to the next upswing in the chemicals cycle. The more worrying aspect to yesterday's statement was that the company foresaw no significant profits rise until 1996, or later.

A higher dividend than many expected will help sugar the pill in the meantime. Some of the financial ingredients on Rhône-Poulenc's balance sheet should also work to its advantage this year. Lower debt, an expanded equity base, and improved cash flow combined with the reduction in French interest rates will significantly ease the financial strains. Bright spots, such as the 20 per cent profits rise from North America, provide additional encouragement. The FFr1.2bn of restructuring provisions taken last year also illustrate how the company is happy to endure pain today to deliver earnings growth tomorrow.

Nevertheless, a share rating of 38 times 1993 earnings anticipates a lot. Rhône-Poulenc's experience hardly provides the most encouraging backdrop for the next wave of French privatisations. No-one pretended the privatisation offers would produce quick returns. Yet few forecast just how long the wait would be.

BMW/Rover

It must be heartening for Rover to hear that BMW intends to invest more in the business than BAe had intended to. While BAe pointed to its investment in Rover at the time of the sale, in truth most of that money had come from Rover's own cash flow. That limited the need for external finance, but did not provide a long-term solution to Rover's capital needs.

Much now turns on Honda's attitude to BMW and Rover. If it withdraws co-operation at an early stage, BMW will have to fund some early conversion of Rover's models. Against that, many of Honda's supply contracts are highly profitable, so a deal may well be struck. It is still possible that Honda will join a tripartite alliance.

Assuming that BMW had to go it alone, however, Land Rover will require substantial investment. Much of its cash has been diverted over the years to fund the improvement in Rover cars. Land Rover's engines and gear boxes are ageing, and need to be updated to take on Far Eastern competition. Capacity at the Solihull plant must also be significantly expanded if BMW intends to push Discovery and an updated Range Rover in the US. If Land Rover is allowed to keep its cash, it can fund much of the need. Rover, however, will require funds from BMW if its models are to be developed. The Rover 600 and 800 ranges may be rationalised or could borrow from BMW's 5-series. So the largest investment decision will be on the small car. BMW will have to find a large amount of money to replace the Metro and guarantee the Longbridge plant a long-term future.

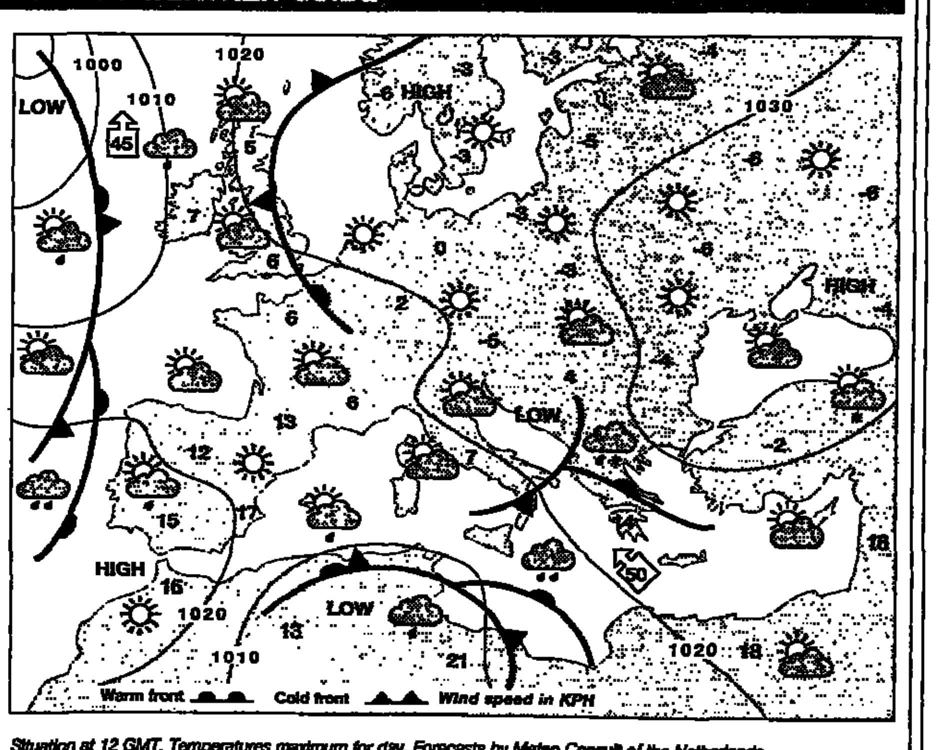
FT WEATHER GUIDE

Europe today

Germany, the Benelux and western Russia will be wintry and sunny. Winds will be weak to gentle. The UK will remain cloudy in the east with some drizzle, while the south will have a misty morning and some sunshine in the afternoon. Ireland will have increasing cloud with rain in the evening. Southern Scandinavia will be settled but very cold with morning temperatures below -15C. Poland will have scattered cloud with snow flurries. France, the Alps, Spain and northern Italy will be dry with a mixture of cloud and sun. Southern Italy will have showers and the southern Balkans will have widespread valley showers and some mountain snow.

Five-day forecast

High pressure will prevail over southern Scandinavia and winds from the east will begin to increase. Dry and cold continental air will move over much of central and western Europe. There will be plentiful sunshine with minimum temperatures between -5C and -15C. Afternoon temperatures will be around freezing. Southern Europe will remain unsettled with a mixture of showers and sunny periods. Showers will be widespread and quite heavy in the eastern Mediterranean.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	24
Accra	fair	32
Algiers	rain	13
Amsterdam	sun	3
Athens	shower	11
B. Aires	fair	23
B.ham	hazy	5
Bangkok	fair	35
Barcelona	fair	12
Beijing	fair	7
Belfast	fair	6
Belgrade	shower	4
Berlin	sun	0
Bermuda	fair	20
Bogota	fair	23
Bombay	sun	30
Brussels	sun	5
Budapest	fair	-3
C.hagen	sun	0
Cairo	sun	19
Cape Town	sun	24
Caracas	fair	26
Cardiff	fair	5
Chicago	sun	10
Cologne	sun	3
D' Salaam	fair	31
Dakar	sun	30
Dallas	sun	22
Delhi	fair	24
Dubai	sun	24
Dublin	fair	8
Dubrovnik	rain	11
Edinburgh	cloudy	5
Faro	fair	16
Frankfurt	sun	0
Geneva	fair	-3
Gibraltar	fair	17
Glasgow	fair	5
Hamburg	sun	2
Helsinki	fair	-3
Hong Kong	shower	22
Honolulu	cloudy	24
Istanbul	fair	4
Jersey	hazy	7
Karachi	fair	26
Kuwait	sun	22
L. Angeles	shower	16
Las Palmas	fair	20
Lima	fair	27
Lisbon	fair	13
London	drzzl	6
Lux.bourg	sun	2
Lyon	fair	-2
Madeira	shower	18
Madrid	fair	12
Majorca	shower	15
Malta	shower	16
Manchester	fair	6
Manila	fair	32
Melbourne	fair	18
Mexico City	fair	22
Miami	fair	25
Milan	hazy	2
Montreal	fair	-2
Moscow	cloudy	-3
Munich	sun	-3
Nairobi	fair	25
Naples	shower	13
Nassau	fair	24
New York	fair	4
Nice	fair	6
Nicosia	sun	16
Oslo	sun	-4
Paris	fair	7
Perth	fair	34
Prague	sun	-6
Rangoon	fair	35
Reykjavik	windy	4
Rio	shower	30
Riyadh	sun	24
Rome	fair	12
S. Frsco	shower	13
Seoul	fair	8
Singapore	cloudy	31
Stockholm	sun	-5
Strasbourg	sun	1
Sydney	shower	26
Tangier	fair	16
Tel Aviv	sun	17
Tokyo	rain	8
Toronto	fair	0
Tunis	rain	17
Vancouver	rain	10
Venice	sun	3
Vienna	fair	-6
Warsaw	fair	-3
Washington	sun	9
Wellington	shower	23
Winnipeg	snow	-4
Zurich	sun	1